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TRANSCRIPT OF RECORD

Supreme Court of the United States

OCTOBER TERM, 1932

No. 752

SINCLAIR REFINING COMPANY, PETITIONER,

vs.

JENKINS PETROLEUM PROCESS COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT

PETITION FOR CERTIORARI FILED MARCH 2, 1933

CERTIORARI GRANTED APRIL 10, 1933

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(37,449)

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[fol. 3]

UNITED STATES DISTRICT COURT, DISTRICT OF MAINE, SOUTHERN DIVISION

Equity. No. 939

JENKINS PETROLEUM PROCESS COMPANY, Plaintiff-Appellant,

vs.

SINCLAIR REFINING COMPANY, Defendant-Appellee

TRANSCRIPT OF RECORD OF DISTRICT COURT

Appearances:

For Appellant: Philip G. Clifford, Portland, Maine; C. Stanley Thompson, Rush H. Williams, Frederick Shafer, Washington, D. C.

For Appellee: Verrill, Hale, Booth & Ives, Portland, Maine; Pennie, Davis, Marvin & Edmonds, 165 Broadway, New York.

[fol. 4] IN UNITED STATES DISTRICT COURT

EXPLANATION

The original action between the same parties was entered in this Court as a cause in equity, which, after hearing, was dismissed. The plaintiff appealed, and by mandate of Circuit Court of Appeals, decree of District Court was reversed and the cause in equity was ordered transferred to the Law side of the court, and said original action now stands on the docket of this Court as an action at law.

The present action is a Bill for Discovery of facts alleged to be material in support of the plaintiff's case in said action at law.

IN UNITED STATES DISTRICT COURT

BILL IN EQUITY FOR DISCOVERY—Filed September 8, 1931

To the Honorable John A. Peters, Judge of the United States District Court for the District of Maine, sitting in equity:

Comes now the plaintiff, Jenkins Petroleum Process Company, a corporation of the State of Wisconsin, and brings this its Bill in Equity for discovery against the defendant, Sinclair Refining Company, a corporation of the State of Maine, and for its cause of action the plaintiff respectfully shows unto the court and alleges as follows:

1. The plaintiff, Jenkins Petroleum Process Company, is and during all the time hereinafter mentioned it has been a corporation organized and existing under and by virtue of the laws of the State of Wisconsin; it is a resident of and is domiciled in the State of Wisconsin, and it has an office and a place of business at 844 Rush Street, in the City of Chicago, in Cook County, in the State of Illinois.

2. The defendant, Sinclair Refining Company, is a corporation organized and existing under and by virtue of the laws of the State of Maine, and it is a resident of and is domiciled in the State of Maine. Said defendant originally was incorporated and for many years it carried on business [fol. 5] under the name of Cudahy Refining Company, and by a certificate of amendment to its Articles of Incorporation filed the 25th day of January, 1917, the name of the defendant corporation was changed from Cudahy Refining Company to Sinclair Refining Company.

3. The amount in controversy in this cause, exclusive of interests and costs, exceeds the sum of Three Thousand Dollars ($3,000.00).

The plaintiff brings this its Bill in Equity for the discovery by the defendant of facts which rest peculiarly within the knowledge of the defendant and of documents in the possession of the defendant which are material to the support of the plaintiff's case in an action at law which now is pending and is undetermined on the law side of this court.

4. On or about the 29th day of August, 1929, pursuant to the mandate of the Circuit Court of Appeals for the First

Circuit dated July 30, 1929, and to the permission granted by order of this Court dated the 28th day of August, 1929, in a cause entitled "Jenkins Petroleum Process Company, plaintiff, v. Sinclair Refining Company, defendant," the plaintiff amended its Bill of Complaint in said cause by substituting for the same a declaration in an action at law for the breach of that certain contract of October 2, 1916, which was mentioned in said mandate. A copy of said declaration in said action at law is attached hereto marked Exhibit "A" and is made a part hereof. Said action at law is entitled "Jenkins Petroleum Process Company, plaintiff, v. Sinclair Refining Company, defendant," and it has been docketed on the law side of this Court as Docket No. 1178. Thereafter, with leave granted by the order of this Court on the 26th day of May, 1930, the plaintiff amended its said declaration in said action at law by adding thereto a third count, a copy of which said third count is attached hereto marked Exhibit "B", and is made a part hereof. The defendant Sinclair Refining Company duly entered its notice of appearance by counsel in said action at law and on or about the 24th day of June, 1930, said defendant filed in the office of the clerk of this Court its pleas in said action at law, a copy of which said pleas is attached hereto, marked Exhibit "C," and is made a part hereof.

[fol. 6] Said action at law has been at issue since the 24th day of June, 1930, and it still is pending and is undetermined on the law side of this Court.

5. The plaintiff further alleges on information and belief that during the period of time starting on the 19th day of November, 1919, and extending down to the date of the filing of said declaration in said action at law, the defendant Sinclair Refining Company constructed, operated and used a large number of cracking stills for the commercial production of gasoline and of other petroleum products resulting from the cracking of petroleum oils, and that each and every of said stills embodied and contained the characteristic and salient elements and features of the devices and inventions covered by the claims of United States Patent No. 1,285,200 which was issued under date of November 19, 1919, to the defendant as assignee of E. W. Isom, a copy of which said patent is attached hereto, marked Ex-

hibit "D," and is made a part hereof. The plaintiff further alleges on information and belief that said cracking stills constructed as hereinbefore alleged in accordance with the design and with the general idea of said patent No. 1,285,200, produced during the period of time hereinbefore mentioned a large part, if not all, of the commercial production of the defendant Sinclair Refining Company of gasoline and of allied petroleum products resulting from the cracking of petroleum oils, and that the inventions of said patent No. 1,285,200 have been the basis of such commercial production of the defendant during said period of time.

6. The plaintiff cannot safely proceed to the trial of said action at law which is pending on the law side of this Court and cannot prove with any degree of accuracy and completeness at the trial of said action at law the damages which the plaintiff has suffered by reason of the breach of the contract which is in suit in said action at law without:

(a) The full discovery by the defendant as to whether or not it constructed and operated during the period of time hereinbefore specified any such cracking still or cracking stills as hereinbefore mentioned and denied.

[fol. 7] (b) The full discovery by the defendant as to the number, if any, of such cracking stills, the date each such cracking still was constructed and the period of time within the period of time hereinbefore specified each such cracking still was operated by the defendant;

(c) An inspection of the drawings showing the particular character, type and construction of any such cracking still or cracking stills constructed, used and operated by the defendant as hereinbefore alleged;

(d) The quantity of gasoline (in barrels) and of other allied petroleum products resulting from the cracking of petroleum oils in any such cracking still or cracking stills operated during the period of time hereinbefore specified by the defendant as hereinbefore alleged; and

(e) The amount of petroleum oils charged into any such cracking still or cracking stills constructed and operated

during the period of time hereinbefore specified by the defendant as hereinbefore alleged.

7. The plaintiff further alleges on information and belief that the facts hereinbefore referred to are peculiarly and exclusively within the knowledge of the defendant; that the documents hereinbefore mentioned are exclusively and solely in the possession of the defendant; that said facts and documents are material to the support of the plaintiff's case as stated in said declaration in said action at law which is pending on the law side of this Court and that said facts and said documents are not available to the plaintiff without the assistance of the equity side of this Court, and more particularly the plaintiff alleges on information and belief that the evidence to prove the amounts of petroleum oils charged into any such cracking still or cracking stills constructed and operated by the defendant as hereinbefore alleged and to prove the amounts of gasoline and of allied petroleum products resulting from the cracking of petroleum oils in any such cracking still or cracking stills, is contained in the books, records and papers of the defendant corporation; that the production of such books, records [fol. 8] and papers at the trial of said action at law which is pending on the law side of this Court in response to a subpœna duces tecum would not enable the plaintiff safely to prosecute said action at law by reason of the fact that the entries and notations in such books, records and papers cover the tremendous production of gasoline and of allied petroleum products of the defendant corporation during a period of approximately ten years; that said entries and notations are so numerous and so complicated that the plaintiff, its attorneys or other representatives, could not possibly ascertain definitely in a practical and correct manner and within any reasonable length of time, and especially not within the length of time which will be required for the trial of said action at law, either the amounts of petroleum oils charged into said cracking stills, or the production of gasoline or of allied petroleum products resulting from the cracking of such petroleum oils.

8. To the end, therefore, that the plaintiff may have the discovery of all and singular the matters and things herein set forth and that the defendant may make full, true, direct

and perfect answer to the several interrogatories hereinafter set forth as by the note hereinafter written, the defendant is required to answer said interrogatories and to attach to the answers to said interrogatories copies of the various drawings, papers and other documents which the defendant is requested in and by said interrogatories to produce for inspection by the plaintiff, said interrogatories being as follows:

INTERROGATORIES

1. Has the defendant during the period from November 19, 1919, to the date of the filing of said declaration in said action at law, in its commercial production of gasoline and of other petroleum products resulting from the cracking of petroleum oils, operated and used a cracking still or cracking stills embodying or containing the characteristics and salient elements of the devices and inventions covered by the claims of United States Patent No. 1,285,200, issued under date of November 19, 1919, to the defendant as assignee of E. W. Isom?

[fol. 9] 2. If an affirmative answer is given to Interrogatory No. 1, has the defendant blue prints and/or tracings and/or other drawings of the cracking still or cracking stills referred to in Interrogatory No. 1 and so operated and used by the defendant?

3. If an affirmative answer is given to Interrogatory No. 2, produce such blue prints and/or tracings and/or other drawings referred to in Interrogatory No. 2.

4. If a negative answer is given to Interrogatory No. 1, has the defendant during the period from November 19, 1919, to the date of the filing of said declaration in said action at law, in its commercial production of gasoline and of other petroleum products resulting from the cracking of petroleum oils, operated and used a cracking still or cracking stills at a pressure of about or more than 100 lbs. and at temperatures between 600° and 900° F., and in which the primary and essential elements in combination consisted of a furnace having heating flues therein with substantially vertical heating pipes extending through said heating flues, which said pipes were connected separately from both ends to a supply tank containing the petroleum

oil to be cracked, with a liquid forcing means in one of said connections from the supply tank to the bottom of the said heating pipes for the purpose of rapidly forcing the charging stock in the supply tank, from said tank through said tubes and back into said tank?

5. If an affirmative answer is given to Interrogatory No. 4, has the defendant blue prints and/or tracings and/or other drawings of such cracking still or cracking stills so used and operated?

6. If an affirmative answer is given to Interrogatory No. 5, produce such blue prints and/or tracings and/or other drawings.

7. If a negative answer is given to Interrogatory No. 1, has the defendant during the period from November 19, 1919, to the date of the filing of said declaration in said action at law, in its commercial production of gasoline and of other petroleum products resulting from the cracking of petroleum oils, operated and used a cracking still or cracking stills at a pressure of about or more than 100 lbs. and at temperatures between 600° and 900° F., in which the [fol. 10] primary and essential elements in combination consisted of a furnace having heating flues therein with vertical heating pipes extending through said heating flues, which said pipes were connected separately from both ends to a supply tank containing the petroleum oil to be cracked, with a liquid forcing means in one of said connections from the supply tank to the bottom of the said heating pipes for the purpose of rapidly forcing said charging stock through said connections, heating pipes and supply tank?

8. If an affirmative answer is given to Interrogatory No. 7, has the defendant blue prints and/or tracings and/or other drawings of such cracking still or cracking stills so used and operated?

9. If an affirmative answer is given to Interrogatory No. 8, produce such blue prints and/or tracings and/or other drawings.

10. If a negative answer is given to Interrogatory No. 1, has the defendant during the period from November 19, 1919, to the date of the filing of said declaration in said action at law, in its commercial production of gasoline and of other

petroleum products resulting from the cracking of petroleum oils, operated and used a cracking still or cracking stills at a pressure of about or more than 100 lbs. and at temperatures between 600° and 900° F., in which the primary and essential elements in combination consisted of a furnace having heating flues therein with substantially vertical heating pipes extending through said heating flues, which said pipes were connected separately from both ends to a supply tank containing the petroleum oil to be cracked, with a liquid forcing means in one of said connections from the supply tank to the bottom of the said heating pipes for the purpose of rapidly forcing the petroleum oil in the supply tank, from said tank through said tubes and back into said tank with the addition of a pipe extending from and affixed to the inside of the opening in the end of and near the bottom of the supply tank, through which the oil from the heating pipes was returned to such supply tank—said pipe extending from such opening approximately in a straight line to a point substantially toward the further end of said supply tank?

11. If an affirmative answer is given to Interrogatory [fol. 11] No. 10, has this defendant blue prints and/or tracings and/or other drawings of such still or stills?

12. If an affirmative answer is given to Interrogatory No. 11, produce such blue prints and/or tracings and/or other drawings.

13. If the answer to any one or more of the Interrogatories numbered 1, 4, 7 and 10 is in the affirmative, state how many of each type of such cracking stills have been so commercially operated by the defendant and the period of time covered by the operation of each still of each such type.

14. Furnish a statement showing by years for the period of time indicated herein above in Interrogatories 1, 4, 7 and 10, the total amounts of (a) gasoline, (b) fuel oil, (c) lubricating oil, and (d) any other commercial products, classified, produced by the defendant in the commercial operation of any such cracking still or cracking stills as herein above defined and described, the use and operation of which has been admitted by this defendant in any answer to any preceding interrogatory.

15. Furnish a statement showing by years for the period of time herein above indicated, namely, from November 19, 1919, to the date of the filing of said declaration in said action at law, the amounts of charging stock (in barrels) which have been introduced by the defendant in its commercial operation into any such cracking still or cracking stills as herein above described and defined, the commercial use of which has been admitted by this defendant in answer to any preceding interrogatory.

Wherefore, being without adequate remedy at law or otherwise save by the interposition of this Honorable Court sitting in equity, the plaintiff, Jenkins Petroleum Process Company, respectfully prays as follows:

1. That a writ of subpœna be issued directed to the defendant, Sinclair Refining Company, commanding said defendant at a time certain therein named personally to appear before this Honorable Court and then and there full, true, direct and perfect answer to make to each of the several interrogatories herein above set forth, and to attach to the answers to said interrogatories copies of the [fol. 12] various drawings, papers and other documents therein called for, the same to be open to the inspection of your orator.

2. That the plaintiff, Jenkins Petroleum Process Company, have such other, further and general relief as the nature of the case may require and as this Honorable Court may term proper.

Philip G. Clifford, Solicitor for the Plaintiff. C. Stanley Thompson, Rush H. Williamson, Frederick Schafer, Washington, D. C., of Counsel.

Note

The defendant Sinclair Refining Company, a corporation, is required to answer the above interrogatories under oath, the answers to be verified by an executive officer of said defendant corporation having knowledge of the facts therein inquired about.

Philip G. Clifford, Solicitor for the Plaintiff.

[fols. 13 & 13-1] EXHIBIT "A" TO BILL

IN UNITED STATES DISTRICT COURT, DISTRICT OF MAINE

At Law. No. —

JENKINS PETROLEUM PROCESS COMPANY, a Corporation, Plaintiff,

vs.

SINCLAIR REFINING COMPANY, a Corporation, Defendant

Now comes the Plaintiff, Jenkins Petroleum Process Company, a corporation legally existing by law and having a place of business in Chicago, in the County of Cook and State of Illinois, and pursuant to the mandate of the Circuit Court of Appeals of the First Circuit, dated July 30, 1929, and to the permission granted by order of this court dated the twenty-eighth day of August, 1929, hereby amends its bill of complaint by substituting for the same a declaration in an action at law for the breach of a certain contract of October 2, 1916, mentioned in said mandate, as follows: in a plea of the case for that

(1) Jenkins Petroleum Process Company is a corporation organized and existing under and by virtue of the laws of the State of Wisconsin, and it is a resident of and is domiciled in the State of Wisconsin;

That the Defendant, Sinclair Refining Company, is a corporation organized and existing under and by virtue of the laws of the State of Maine, and it is a resident of and is domiciled in the State of Maine; that said Defendant corporation originally was incorporated, and for many years it carried on business, under the name of Cudahy Refining Company; that by a certificate of amendment to its articles of incorporation filed the twenty-fifth day of January, [fol. 13-2] 1917, the name of the Defendant corporation was changed from Cudahy Refining Company to Sinclair Refining Company;

That the amount in controversy in this cause, exclusive of interest and costs, exceeds the sum of three thousand dollars ($3,000);

That prior to the second day of October, 1916, Ulysses S. Jenkins, T. S. Black, and W. S. Black, all of Chicago, Illi-

nois, and A. G. Maguire of Milwaukee, Wisconsin, had subscribed to all the capital stock of the Plaintiff corporation and had caused to be executed the articles of incorporation of the Plaintiff corporation as required by the laws of the State of Wisconsin, and that subsequent to the second day of October, 1916, to wit: on the ninth day of October, 1916, the certificate of incorporation of the Plaintiff corporation was duly issued by the Secretary of State of the State of Wisconsin, and on the sixteenth day of October, 1916, the certificate of incorporation and the articles of incorporation of the Plaintiff corporation were duly recorded in the County of Milwaukee in the State of Wisconsin;

That thereafter said Ulysses S. Jenkins, T. S. Black, W. S. Black and A. G. Maguire assigned to said Plaintiff all their right, title and interest in and to the contract hereinafter referred to, and dated October 2, 1916, and said Plaintiff accepted said assignment and ratified said contract;

That on the second day of October, 1916, in the said City of Chicago, the said Sinclair Refining Company under its then name, Cudahy Refining Company as above set forth, in consideration of the hereinafter stated promises and agreements of the Plaintiff's assignors, as hereinbefore alleged, entered into a contract in writing with the said Ulysses S. Jenkins, T. S. Black, W. C. Black, and A. G. Maguire, acting under the name of Jenkins Petroleum Process Company, the rights of which said individuals in and to said contract have been assigned to said Jenkins Petroleum Process Company as above stated, whereby the said Plaintiff's assignors as above set forth, in consideration of the hereinafter stated promises and agreements of the said Defendant made its then name of Cudahy Refining Company as hereinbefore alleged, promised and agreed to loan to said Defendant a certain experimental still to be shipped to Coffeyville, Kansas, and further agreed that [fol. 13-3] said Ulysses S. Jenkins of Chicago should go to Coffeyville, Kansas, to instal- said still and should remain in an advisory capacity throughout the entire course of experimental work to be carried on by the experts of said Cudahy Refining Company; and whereby the said Defendant under its then name of Cudahy Refining Company in consideration of the hereinbefore stated promises and

agreements of the Plaintiff's assignors, as above stated, promised and agreed that any improvements, whether of a mechanical nature or in the process which might be developed as the result of the work of its engineers and experts in familiarizing themselves with the Jenkins apparatus and process, on which an application for Letters Patent of the United States was then pending, should accrue to the said Jenkins Petroleum Process Company, and that said Defendant should cause its employees carrying on such experimental work to execute applications for patents of the United States and any other countries to protect any such improvements, and should assign said applications together with the improvements which they would be intended to protect to said Jenkins Petroleum Process Company;

That the said Plaintiff and the Plaintiff's assignors have fulfilled and completed all the promises and agreements to be carried out by it or its assignors under said contract in accordance with the terms thereof as above stated; that the said Defendant has not fulfilled any of the promises and agreements made by it under said contract as above set forth, but has refused to fulfill its said promises and agreements, though repeatedly requested thereto by said Plaintiff, but has applied for and procured Letters Patent of the United States on improvements of a mechanical nature and in the process which said improvements were developed as a result of the work of its engineers and experts in familiarizing themselves with the Jenkins apparatus and process, and though requested thereto has refused to assign said applications or said Letters Patent of the United States together with the improvements which they protect to said Plaintiff, and has widely, extensively and profitably used said improvements in connection with its business and has failed and refused to compensate said Plaintiff for said [fol. 13-4] wide, extensive and profitable use to the great damage of the Plaintiff, as it says, the sum of five million dollars ($5,000,000), which shall be made to appear with other due damages.

2. Also for that Jenkins Petroleum Process Company is a corporation organized and existing under and by virtue of the laws of the State of Wisconsin, and is a resident of and is domiciled in the State of Wisconsin.

That the Defendant, Sinclair Refining Company, is a corporation organized and existing under and by virtue of the laws of the State of Maine, and is a resident of and is domiciled in the State of Maine; that said corporation originally was incorporated and for many years it carried on business under the name Cudahy Refining Company; that by a certificate of amendment to its Articles of Incorporation filed January 25, 1927, the name of the Defendant corporation was changed from Cudahy Refining Company to Sinclair Refining Company.

That the amount in controversy in this cause, exclusive of interest and costs, exceeds the sum of $3,000.00.

That during June, 1916, Ulysses S. Jenkins, T. S. Black, and W. C. Black, all then residents of Chicago, in the State of Illinois, and A. G. Maguire, then a resident of Milwaukee, in the State of Wisconsin, associated themselves in business for the purpose of developing and using certain inventions of the said Ulysses S. Jenkins relative to treating petroleum products; that for that purpose the said Jenkins conveyed to the said T. S. Black, W. C. Black, and A. G. Maguire an interest in the said inventions and in all patents to be issued thereon; that, thereafter, the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, for the purpose of utilizing the said inventions and patent rights, undertook the organization of the Plaintiff corporation; that in July, 1916, said Jenkins, T. S. Black, W. C. Black and A. G. Maguire subscribed to the capital stock of the Plaintiff corporation; that, under date of September 25, 1916, said Jenkins, T. S. Black, W. C. Black and A. G. Maguire caused to be executed the Articles of Incorporation of the Plaintiff corporation as required by the laws of the State of Wisconsin; that on the 9th day of October, 1916, the Certificate of Incorporation of the Plaintiff corporation was duly issued by the Secretary of [fol. 13-5] State of the State of Wisconsin, and on the 16th day of October, 1916, the said Certificate of Incorporation and the Articles of Incorporation of the Plaintiff corporation were duly recorded in the County of Milwaukee, in the State of Wisconsin; that, thereafter, the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, in pursuance of their previous agreement and undertaking conveyed to the Plaintiff corporation all their interest in

and to the said inventions of the said Jenkins and in and to all applications for Letters Patent therefor and in and to all patents which thereafter might be issued in connection with the said inventions or in connection with any improvements or developments thereof and in and to their certain contract of October 2, 1916, which is hereinafter set forth, and said Plaintiff acepted said assignment and ratified said contract.

That in or about July, August and September, 1916, the Defendant, Sinclair Refining Company, under its then name of Cudahy Refining Company, applied to the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire for an opportunity to investigate the said Jenkins Process of treating petroleum, and for its officers and representatives to acquire full full knowledge and information regarding the said Jenkins process and apparatus, the applications for patents thereon then pending, and an experimental still which said Ulysses S. Jenkins had constructed, and to enter into a contract with said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, or with the Plaintiff corporation, to purchase the right to use said process in and about the Defendant's treatment of petroleum products.

That, thereupon, on or about the second day of October, 1916, at Chicago, in the State of Illinois, the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, acting under the name of Jenkins Petroleum Process Company, and the said Defendant, Sinclair Refining Company, acting under its then name of Cudahy Refining Company, entered into a certain contract and agreement in writing which was in words and figures as follows:

[fol. 13-6] Chicago, Illinois, October 2nd, 1916.

Cudahy Refining Company, Chicago, Illinois.

GENTLEMEN: Pursuant to our conversations and conferences relative to the Jenkins process of treating petroleum, it is understood that we are to loan you our experimental still to be shipped to Coffeyville, Kansas, so that your experts and engineers may have apparatus immediately available upon which to carry out experiments upon the Jenkins improved process upon your petroleum products.

It is further understood that Mr. Ulysses S. Jenkins, of Chicago, will go to Coffeyville, Kansas, to install the still

and will remain in an advisory capacity throughout the entire course of experimental work carried on by your experts, Mr. Jenkins' salary being $150.00 per month, and all expenses, including railroad expenses incurred by him in making trips to Chicago, rendered necessary by said experimental work, this to be paid by you.

It is further definitely understood and agreed between us that any improvements, whether of a mechanical nature, or in the process, which may be developed as the result of the work of your engineers and experts in familiarizing themselves with the Jenkins apparatus and process, shall accrue to the Jenkins Petroleum Process Company, and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and to assign said applications, together with the improvements they are intended to protect, to the Jenkins Petroleum Process Company. This provision is of course rendered necessary by the fact that in the development of a process of this character, and particularly in its application to particular oils, many short cuts and improvements necessarily are developed by the experts entrusted with the carrying out of the process, which belong by right to their employer, and under the circumstances here involved, of course, to the Jenkins Petroleum Process Company, inasmuch as they are loaning you not only their experimental still, but also the services of Mr. Jenkins, the inventor himself.

It is further understood that all expenses in connection with the transportation of the still and incidental expenses shall be paid by you, and that as soon as your engineers and experts have carried on sufficient work with this still to thoroughly familiarize themselves with the process and [fol. 13-7] discover the best conditions under which to apply the process to your petroleum products, the still will be returned in good condition to us, and that Mr. Jenkins' salary will continue from the time the still is first shipped to Coffeyville, until such time as it is returned.

Yours very truly, Jenkins Petroleum Process Company, by A. G. Maguire, President.

This letter and agreement accepted and approved
Cudahy Refining Company, by W. H. Isom, Pres.

That pursuant to said contract of October 2, 1916, said Plaintiff's assignors as hereinbefore alleged, and said Plaintiff did in fact loan to the Defendant, Sinclair Refining Company, apparatus theretofore invented and constructed by the said Ulysses S. Jenkins, on which an application for Letters Patent of the United States then was pending; that the said Ulysses S. Jenkins went to the works of the said Defendant at Coffeyville, in the State of Kansas, and there erected the said apparatus; that the said Ulysses S. Jenkins spent a great part of his time at the plant of said Defendant, and fully informed the said Defendant and its employees and officers, as to the nature of the said inventions and discoveries, and fully advised the officers and employees of the said Defendant regarding the plans and ideas of the said Ulysses S. Jenkins for the further development and improvement of the said apparatus and process and fully instructed the said officers and employees in the art in which said process and apparatus were used and were to be used, and that in all respects the said Jenkins and said Plaintiff, and its officers and employees, fully carried out and performed all the terms and conditions of the said contract of October 2, 1916, on their part to be carried out and performed.

That on or about the tenth day of September, 1917, Edward W. Isom, who then was and for many years prior thereto continuously had been an employee of the Defendant and who had acquired said ideas and had obtained said instruction, information and advice from the said Ulysses [fol. 13-8] S. Jenkins and from other officers and employees of the Plaintiff, as aforesaid, surreptitiously and without the knowledge of the Plaintiff or of its officers or representatives, filed a certain application for Letters Patent of the United States, and, thereafter, without the consent of the Plaintiff, procured Letters Patent of the United States to be issued, under date of November 19, 1918, being Letters Patent, No. 1,285,200, a copy of which Letters Patent is hereto annexed and marked "Exhibit 1" and caused said Letters Patent to be assigned to the Defendant; that said apparatus and process described in the said Letters Patent, Exhibit 1, was developed as a result of said opportunities afforded to said Edward W. Isom and to other engineers and experts and employees of the said Defendant, to familiarize themselves with the said Jenkins' apparatus

and process, and of said instructions, information and advice given to said Edward W. Isom and to other engineers and employees of the Defendant by said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire and by the Plaintiff; that the said apparatus and process described in the said Letters Patent, Exhibit 1, embody the essential features of the said invention of said Ulysses S. Jenkins and disclose in addition thereto only improvements of a mechanical character and in the process of said invention of said Ulysses S. Jenkins; that in so far as the said apparatus and process described in the said Letters Patent, Exhibit 1, have merit and utility in the art, such merit and utility consist simply in improvements and adaptions in the said Jenkins apparatus and process; that the said apparatus constructed by the said Ulysses S. Jenkins remained in the possession of the said Defendant during all the time that the said Edward W. Isom was engaged in the preparation of the said apparatus and process described in the said Letters Patent, Exhibit 1, and the said Defendant has retained, and it now has in its possession, the said apparatus.

That the said Edward W. Isom at all times, in connection with the matters aforesaid, was acting entirely under the direction and control of the said Defendant.

That the said Defendant, regardless of its obligations under and in accordance with the terms of the said con- [fol. 13-9] tract of October 2, 1916, did not cause the said Edward W. Isom to assign his application for the said Letters Patent, Exhibit 1, or to turn over to the said Plaintiff the said improvements and process described in said Letters Patent, Exhibit 1, but, on the contrary thereof, the said Defendant caused the said Edward W. Isom to assign his said Letters Patent, Exhibit 1, to the said Defendant, and the said Defendant has failed and refused to assign said Letters Patent, Exhibit 1, to the Plaintiff, although repeatedly requested thereto by the said Plaintiff.

Wherefore, the said Plaintiff has in all respects fulfilled its promises and agreements by it to be performed under said contract of October 2, 1916, and the said Defendant has not performed its promises and agreements, but though requested thereto, has wholly refused to carry out the terms

and obligations of said contract of October 2, 1916, to be by it performed and has widely, extensively and profitably used said improvements in connection with its business and has failed and refused to compensate said Plaintiff for said wide and extensive and profitable use to the great damage of the Plaintiff, as it says, the sum of five million dollars ($5,000,000), which shall be made to appear with other due damage.

Dated August 29, 1929.

By Its Attorneys, C. Stanley Thompson, Philip G. Clifford.

[fol. 13-10] EXHIBIT "B" TO BILL

IN THE DISTRICT COURT OF THE UNITED STATES, DISTRICT OF MAINE, SOUTHERN DIVISION

At Law. No. 1178

JENKINS PETROLEUM PROCESS COMPANY, Plaintiff,

v.

SINCLAIR REFINING COMPANY, Defendant

Motion of Plaintiff for Leave to Amend Its Declaration

And now, on this 15th day of May, 1930, comes the Plaintiff, the said Jenkins Petroleum Process Company, and asks leave of the Court to amend its declaration already filed in the above entitled cause, by adding to said declaration a third count in the form hereto annexed.

Jenkins Petroleum Process Company, by Philip G. Clifford, Its Attorney.

[fol. 13-11] 3. Also for that Jenkins Petroleum Process Company is a corporation organized and existing under and by virtue of the laws of the State of Wisconsin, and is a resident of and is domiciled in the State of Wisconsin.

That the Defendant, Sinclair Refining Company, is a corporation organized and existing under and by virtue of the laws of the State of Maine, and is a resident of and is domiciled in the State of Maine; that said corporation originally was incorporated and for many years it carried on business

under the name Cudahy Refining Company; that by a certificate of amendment to its Articles of Incorporation filed January 25, 1917, the name of the Defendant corporation was changed from Cudahy Refining Company to Sinclair Refining Company.

That the amount in controversy in this cause, exclusive of interest and costs, exceeds the sum of $3,000.00.

That during June, 1916, Ulysses S. Jenkins, T. S. Black, and W. C. Black, all then residents of Chicago, in the State of Illinois, and A. G. Maguire, then a resident of Milwaukee, in the State of Wisconsin, associated themselves in business for the purpose of developing and using certain inventions of the said Ulysses S. Jenkins relative to treating petroleum products; that for that purpose the said Ulysses S. Jenkins conveyed to the said T. S. Black, W. C. Black, and A. G. Maguire an interest in the said inventions and in all patents to be issued thereon; that, thereafter, the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, for the purpose of utilizing the said inventions and patent rights, undertook the organization of the Plaintiff corporation; that in July, 1916, said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire subscribed to the capital stock of the Plaintiff corporation; that under date of September 25, 1916, said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire caused to be executed the Articles of Incorporation of the Plaintiff corporation as required by the laws of the State of Wisconsin; that on the 9th day of October, 1916, the Certificate of Incorporation of the Plaintiff corporation was duly issued by the Secretary of State of the State of Wisconsin, and on the 16th day of October, 1916, the said Certificate of Incorporation and the Articles [fol. 13-12] of Incorporation of the Plaintiff corporation were duly recorded in the County of Milwaukee, in the State of Wisconsin; that, thereafter, said Plaintiff took over and continued the business and affairs theretofore done in its name and in its behalf by said individuals as hereinafter alleged and said Plaintiff ratified the acts, including the making of that contract of October 2, 1916, which is hereinafter set forth, theretofore done in its name and in its behalf by said individuals as hereinafter alleged, and said Plaintiff ratified and adopted said contract of October 2, 1916.

That in or about July, August and September, 1916, the Defendant, Sinclair Refining Company, under its then name of Cudahy Refining Company, applied to the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire for an opportunity to investigate the said Jenkins Process of treating petroleum products, and for its officers and representatives to acquire full knowledge and information regarding the said Jenkins process and apparatus, the application for patents thereon then pending, and an experimental still which said Ulysses S. Jenkins had constructed, and to enter into a contract with said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, or with the Plaintiff corporation, to purchase the right to use said process in and about the Defendant's treatment of petroleum products.

That, thereupon, on or about the second day of October, 1916, at Chicago, in the State of Illinois, the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, acting in the name of and in behalf of Jenkins Petroleum Process Company, the said Plaintiff, which as the said Defendant then well knew then was in process of organization and incorporation as hereinbefore alleged, and the said Defendant, Sinclair Refining Company, acting under its then name of Cudahy Refining Company, entered into a certain contract and agreement in writing which was in words and figures as follows:

[fol. 13-13] Chicago, Illinois, October 2nd, 1916.

Cudahy Refining Company, Chicago, Illinois.

GENTLEMEN: Pursuant to our conversations and conferences relative to the Jenkins process of treating petroleum, it is understood that we are to loan you our experimental still to be shipped to Coffeyville, Kansas, so that your experts and engineers may have apparatus immediately available upon which to carry out experiments upon the Jenkins improved process upon your petroleum products.

It is further understood that Mr. Ulysses S. Jenkins, of Chicago, will go to Coffeyville, Kansas, to install the still and will remain in an advisory capacity throughout the entire course of experimental work carried on by your experts, Mr. Jenkins' salary being $150.00 per month, and all expenses, including railroad expenses incurred by him in

making trips to Chicago, rendered necessary by said experimental work, this to be paid by you.

It is further definitely understood and agreed between us that any improvements, whether of a mechanical nature, or in the process, which may be developed as the result of the work of your engineers and experts in familiarizing themselves with the Jenkins apparatus and process, shall accrue to the Jenkins Petroleum Process Company, and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and to assign said applications, together with the improvements they are intended to protect, to the Jenkins Petroleum Process Company. This provision is of course rendered necessary by the fact that in the development of a process of this character, and particularly in its application to particular oils, many short cuts and improvements necessarily are developed by the experts entrusted with the carrying out of the process, which belong by right to their employer, and under the circumstances here involved, of course, to the Jenkins Petroleum Process Company, inasmuch as they are loaning you not only their experimental skill, but also the services of Mr. Jenkins, the inventor himself.

It is further understood that all expenses in connection with the transportation of the still and incidental expenses shall be paid by you, and that as soon as your engineers [fol. 13-14] and experts have carried on sufficient work with this still to thoroughly familiarize themselves with the process and discover the best conditions under which to apply the process to your petroleum products, the still will be returned in good condition to us, and that Mr. Jenkins' salary will continue from the time the still is first shipped to Coffeyville, until such time as it is returned.

Yours very truly, Jenkins Petroleum Products Company, by A. G. Maguire, President.

This letter and agreement accepted and approved.
Cudahy Refining Company, by W. H. Isom, Pres.

That the said word "Products" in the signature of the Plaintiff to the agreement above set forth was a typograph-

ical error and that it was the intent and purpose of the parties thereto that it should be signed with the correct name of this Plaintiff, viz.: Jenkins Petroleum Process Company, which then was in process of organization and incorporation as aforesaid.

That pursuant to said contract of October 2, 1916, said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, acting as hereinbefore alleged, and said Plaintiff did in fact loan to the Defendant, Sinclair Refining Company, apparatus theretofore invented and constructed by the said Ulysses S. Jenkins, on which an application for Letters Patent of the United States then was pending; that the said Ulysses S. Jenkins went to the works of the said Defendant at Coffeyville, in the State of Kansas, and there erected the said apparatus; that the said Ulysses S. Jenkins spent a great part of his time at the plant of said Defendant, and fully informed the said Defendant and its employees and officers as to the nature of the said inventions and discoveries, and fully advised the officers and employees of the said Defendant regarding the plans and ideas of the said Ulysses S. Jenkins for the further development and improvement of the said apparatus and process and fully instructed the said officers and employees in the art [fol. 13-15] in which said process and apparatus were used and were to be used, and that in all respects the said Ulysses S. Jenkins and said Plaintiff, and its officers and employees, fully carried out and performed all the terms and conditions of the said contract of October 2, 1916, on their part to be carried out and performed.

That on or about the tenth day of September, 1917, Edward W. Isom, who then was and for many years prior thereto continuously had been an employee of the Defendant and who had acquired said ideas and had obtained said instruction, information and advice from the said Ulysses S. Jenkins and from other officers and employees of the Plaintiff, as aforesaid, surreptitiously and without the knowledge of the Plaintiff or of its officers or representatives, filed a certain application for Letters Patent of the United States, and, thereafter, without the consent of the Plaintiff, procured Letters Patent of the United States to be issued, under date of November 19, 1918, being Letters Patent, No. 1,285,200, a copy of which Letters Patent is

hereto annexed and marked "Exhibit 1" and caused said Letters Patent to be assigned to the Defendant; that said apparatus and process described in the said Letters Patent, Exhibit 1, was developed as a result of said opportunities afforded to said Edward W. Isom and to other engineers and experts and employees of the said Defendant, to familiarize themselves with the said Jenkins' apparatus and process, and of said instructions, information and advice given to said Edward W. Isom and to other engineers and employees of the Defendant by said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire and by the Plaintiff; that the said apparatus and process described in the said Letters Patent, Exhibit 1, embody the essential features of the said invention of said Ulysses S. Jenkins and disclose in addition thereto only improvements of a mechanical character and in the process of said invention of said Ulysses S. Jenkins; that in so far as the said apparatus and process described in the said Letters Patent, Exhibit 1, have merit and utility in the art, such merit and utility consist simply in improvements and adaptations in the said Jenkins' apparatus and process; that the said apparatus constructed by the said Ulysses S. Jenkins remained in the possession of the said Defendant during all [fols. 13-16 & 14] the time that the said Edward W. Isom was engaged in the preparation of the said apparatus and process described in the said Letters Patent, Exhibit 1, and the said Defendant has retained, and it now has in its possession, the said apparatus.

That the said Edward W. Isom at all times, in connection with the matters aforesaid, was acting under the direction and control of the said Defendant.

That the said Defendant, regardless of its obligations under and in accordance with the terms of the said contract of October 2, 1916, did not cause the said Edward W. Isom to assign his application for the said Letters Patent, Exhibit 1, to the said Plaintiff or to turn over to the said Plaintiff the said improvements of a mechanical nature and in the process, described in said Letters Patent, Exhibit 1, but, on the contrary thereof, the said Defendant caused the said Edward W. Isom to assign his said Letters Patent, Exhibit 1, to the said Defendant, and the said Defendant has failed and refused to assign said Letters Patent, Ex-

hibit 1, to the Plaintiff, although repeatedly requested thereto by the said Plaintiff.

Wherefore, the said Plaintiff has in all respects fulfilled its promises and agreements by it to be performed under said contract of October 2, 1916, and the said Defendant has not performed its promises and agreements, but, though requested thereto, has wholly refused to carry out the terms and obligations of said contract of October 2, 1916, to be by it performed and has widely, extensively and profitably used said improvements in connection with its business and has failed and refused to compensate said Plaintiff for said wide and extensive and profitable use, to the great damage of the Plaintiff, as it says, the sum of five million dollars ($5,000,000), which shall be made to appear with other due damage.

[fol. 15] EXHIBIT "C" TO BILL

UNITED STATES OF AMERICA,
District of Maine:

UNITED STATES DISTRICT COURT, APRIL TERM, 1930

No. 1178

JENKINS PETROLEUM PROCESS COMPANY

vs.

SINCLAIR REFINING COMPANY

And the said Defendant comes and defends, etc., when, etc., and says that it never promised in manner and form as the Plaintiff in its Writ has declared against it and of this puts itself upon the country.

By Verrill, Hale, Booth & Ives, Defendant's Attorneys.

And the Plaintiff likewise.

By Philip G. Clifford, Plaintiff's Attorney.

And for a brief statement of special matter of defense to be used under the general issue pleaded, the said defendant further says:

1. The Plaintiff, and the individuals, Ulysses S. Jenkins, T. S. Black, W. C. Black, and A. G. Maguire, failed to perform their obligations under the agreement of October 2,

1916, in that they did not loan to defendant an experimental still which was immediately available for carrying out experiments upon defendant's petroleum products, as required by the first paragraph of the agreement; but instead loaned a still which was defective and inoperative and incapable of use for carrying out any experiments whatever upon defendant's petroleum products, so that defendant's experts and engineers were unable to carry out any experiments with said still on defendant's petroleum products.

2. Plaintiff and the said individuals further failed to perform their obligations under the second paragraph of the agreement of October 2, 1916, in that Ulysses S. Jenkins did not remain at Coffeyville in an advisory capacity [fol. 16] throughout the entire course of experimental work carried on by defendant's experts, and did not remain through any course of experimental work whatever, for the reason that the still was defective and incapable of use to carry out any such experimental work; instead, Jenkins, after proving that the still was defective and incapable of use for any experimental work, abandoned the still and left defendant's Coffeyville plant without the knowledge of defendant and never returned thereto.

3. Plaintiff, and the said individuals (Jenkins, T. S. Black, W. C. Black and Maguire), misrepresented the condition of the still in the agreement of October 2, 1916, as one which would be immediately available for carrying out experiments on defendant's petroleum products, and concealed from defendant the true condition of said still, which they knew to be defective and incapable of use for such experimentation.

4. Plaintiff abandoned the agreement of October 2, 1916, and its obligations thereunder. When Jenkins had shown that the experimental still was defective and not available for the experiments contemplated by the agreement, Jenkins abandoned the still and left defendant's Coffeyville refinery without the knowledge of defendant, and plaintiff did nothing further to make any apparatus immediately available for experiments, as required by the first paragraph of the agreement, and Jenkins made no further efforts whatever to assist in any experimental work, as required by the second paragraph of the agreement.

5. There was failure of consideration on the part of plaintiff for the agreement of October 2, 1916. The plaintiff failed to ship a still with which it was possible for defendant to demonstrate the Jenkins process upon defendant's petroleum products, and Jenkins did not remain at Coffeyville in an advisory capacity throughout any experimental work of the kind contemplated by the letter. Defendant had been fully informed about the Jenkins process and apparatus, without obligation or injunction of secrecy, prior to the agreement of October 2, 1916, when the four individuals (Jenkins, T. S. Black, W. C. Black and Maguire) were promoting the Jenkins process and seeking [fol. 17] to interest various refiners, including defendant, in it. Defendant required a demonstration of the process to determine if it was applicable to defendant's petroleum products, and it was for the purpose of obtaining an immediate demonstration that the still was to be shipped to Coffeyville to be there demonstrated by Jenkins. The consideration for the agreement, on plaintiff's part, was not the disclosure of the Jenkins process and apparatus, which had been previously disclosed without obligation, but the consideration for the agreement on plaintiff's part was the loaning of an experimental still which would be immediately available for carrying out experiments upon defendant's products, and the services of Jenkins in installing the still and in remaining in an advisory capacity throughout the entire courses of experimental work for demonstrating the process on defendant's products. In view of the inoperativeness and the worthlessness of the still, and the impossibility of carrying out experiments with it, and the failure of Jenkins to render the services contemplated, there was failure of consideration for the agreement on plaintiff's part.

6. Plaintiff and the four individuals (Jenkins, T. S. Black, W. C. Black and Maguire) misrepresented the Jenkins process to the defendant, and misrepresented the results that had been obtained with it, prior to the agreement of October 2, 1916, and at the time of said agreement. The said individuals represented the process as a revolutionary process for making gasoline, which would produce 100% gasoline from the oil treated, in which no objectionable carbon or coke would be formed, in which stratifica-

tion of the gases and vapors would take place in the still so that only gasoline vapors would be withdrawn therefrom, in which no permanent gas would be permitted to escape from the still, in which advantage was taken of the law of mass action, and which could be continued indefinitely without the necessity of shutting down the still for cleaning; and said individuals represented the process as one which had been fully demonstrated by tests carried out before eminent engineers; whereas the said individuals knew that the process had not been so demonstrated, and [fol. 18] various features of the process, represented as having been so demonstrated, were in fact incapable of such demonstration.

7. No improvements were made by defendant or its engineers or experts of the kind contemplated in the agreement of October 2, 1916. This agreement contemplated experimental work to demonstrate the Jenkins process on defendant's petroleum products, and the improvements contemplated by the agreement were improvements developed as a result of such experimental work. Since the still was defective and incapable of use for any experimental work, and since no experimental work was or could be carried out with it, there were not, and could not have been, any such improvements as were contemplated by the agreement, and consequently there could be no improvements to assign.

8. Defendant obtained no benefit or advantage from the agreement of October 2, 1916, nor from anything done pursuant thereto. The full and complete disclosure of the Jenkins process and apparatus had been made to defendant prior to said agreement, without obligation and without injunction of secrecy, as a part of the public promotion of the Jenkins process. The experimental work contemplated by the agreement, for which the still was to be "immediately available," and which was to demonstrate the Jenkins process on defendant's products, was never carried out. The information which defendant desired to obtain from said experimental demonstration was not obtained. No benefit was derived from Jenkins' futile effort to erect the still and his demonstration of its inoperative condition. Defendant paid Jenkins' salary and other expenses as provided in the agreement but obtained no benefit therefrom. No advantage accrued to the defendant therefore from

the agreement. It had previously obtained full information regarding the Jenkins process and apparatus; as a part of the public promotion and exploitation of the Jenkins process; and it obtained no additional information under the agreement. The experimental still, after its inoperativeness had been demonstrated, and after it had been abandoned by Jenkins, was placed in defendant's storehouse at Coffeyville, and was never again used by defend- [fol. 19] ant, but held subject to the orders of the said Jenkins or plaintiff, and no request for its return was made by Jenkins or by plaintiff.

9. The invention of the Isom patent No. 1,285,200 is not an improvement on the Jenkins process and apparatus, and is not an improvement, modification or development of any alleged discoveries, inventions and processes of said Jenkins; but, on the contrary, the invention of such Isom patent is an improvement, modification and development of what was well known in the art long prior to any alleged invention of said Jenkins, and of processes and apparatus with which Isom was familiar before he learned of the Jenkins process and apparatus and before Jenkins' alleged invention had been made.

10. The process and apparatus of the Isom patent operate upon different principles from the Jenkins process and apparatus. The principles of operation of the Isom invention are based on the prior art processes and apparatus, known to Isom prior to any knowledge of the Jenkins process and apparatus. The Isom invention is not an improvement of the kind contemplated by the agreement of October 2, 1916, but is a wholly new and distinct invention made by Isom independently of and prior to knowledge of the Jenkins ap-aratus and process and based on wholly different principles of operation.

11. The apparatus and process of the Isom patent No. 1,285,200 are wholly different in principle, construction and mode of operation from anything alleged to have been disclosed to the defendant by the said individuals (Jenkins, T. S. Black, W. C. Black and Maguire,) or by the plaintiff, and do not embody any ideas acquired, or information or instructions gained, from said individuals or from plaintiff.

12. The apparatus and process of the Isom patent No. 1,285,200 were not developed as a result of the work of Isom or of defendant's engineers and experts in familiarizing themselves with the Jenkins apparatus and process, but on the contrary the said Isom invention was made independently of, and prior to, knowledge of the Jenkins process and apparatus.

[fol. 20] 13. The apparatus and process of the Isom patent No. 1,285,200 were independently invented by Edward W. Isom prior to any knowledge of the Jenkins apparatus and process, and prior to the alleged invention by Jenkins of said Jenkins apparatus and process. The said Edward W. Isom was a skilled mechanical engineer working in the art of cracking petroleum and was familiar with numerous processes and apparatus for cracking petroleum and had conceived the process and apparatus of his patent No. 1,285,200 long prior to the earliest date of conception by Jenkins of the Jenkins process and apparatus. Isom's invention had its origin in the prior art cracking processes and apparatus with which Isom was familiar before Jenkins' invention had been made. Isom's invention was made in an attempt to overcome the difficulties of the prior art cracking processes and apparatus. Since Isom's invention is of earlier date than that of Jenkins, it cannot be an improvement of the kind contemplated by the agreement of October 2, 1916.

14. Defendant denies that it applied to Ulysses S. Jenkins, T. S. Black, W. C. Black and A. C. Maguire for an opportunity to investigate the Jenkins process, and for its officers and representatives to acquire full knowledge and information regarding the said Jenkins process and apparatus and the Jenkins applications for patent and the Jenkins experimental still, and denies that it applied to said individuals to enter into a contract with them or with the plaintiff corporation to purchase the right to use the Jenkins process, and denies that the agreement of October 2, 1916, was thereupon entered into. Defendant asserts, on the contrary, that it was the said individuals and particularly the said Jenkins and W. C. Black, then in defendant's employ, who sought to interest defendant, and other oil refiners, in the Jenkins process, as a part of their cam-

paign of public promotion and exploitation of the Jenkins process; and defendant asserts that the said individuals freely and fully disclosed the Jenkins process and apparatus to defendant and to other oil refiners, without obligation, and without injunction of secrecy, as a part of their campaign of public promotion and exploitation, and that such [fol. 21] full and free disclosure had been made prior to the agreement of October 2, 1916, and was not any part of the consideration for that agreement. Defendant requested a demonstration of the Jenkins process and apparatus in order that it might ascertain whether the Jenkins process and apparatus would accomplish the results claimed for it by said individuals, and in order to determine whether defendant's petroleum products could be successfully treated thereby. Two unsuccessful attempts were made by the said individuals to demonstrate the Jenkins process and apparatus to defendant, prior to the agreement of October 2, 1916, and said attempts at demonstration were made without obligation or injunction of secrecy. Both attempts failed, and the second attempt resulted in the burning of the building in which the attempted demonstration was made. It was only after the full and free disclosure of the Jenkins process and apparatus to defendant, and after two unsuccessful attempts to demonstrate the said process and apparatus to defendant, and only when the still was to be shipped to defendant's plant so that experiments on defendant's petroleum products might be made by defendant's experts and engineers, under Jenkins' supervision, that the agreement of October 2, 1916, was entered into; and this agreement had to do only with the experimental work to be carried out, and any improvements resulting therefrom. No experimental work was or could be carried out, and no improvements resulted or could result therefrom.

15. Defendant denies the allegations of counts 2 and 3 of plaintiff's declaration that Jenkins, while at defendant's Coffeyville refinery and subsequent to the agreement of October 2, 1916, fully informed the defendant and its employees and officers as to the nature of his inventions and discoveries, and denies that Jenkins fully advised the officers and employees of the defendant regarding the plans and ideas of the said Jenkins for the further development and improvement of his apparatus and process, and denies

that said Jenkins fully instructed the said officers and employees of defendant in the art in which said process and [fol. 22] apparatus were to be used. Defendant asserts the fact to be that the complete and full disclosure of the Jenkins process and apparatus had been made to defendant prior to the agreement of October 2, 1916, without obligation, and that there was no further information or advice or instructions received by defendant or its officers and employees from said Jenkins or from plaintiff subsequent to the agreement of October 2, 1916, except the information that the Jenkins experimental still was defective and incapable of use for the experimental demonstration which the agreement provided for.

16. Defendant denies that plaintiff has been damaged by any failure or refusal of defendant to perform any of the obligations of said agreement of October 2, 1916. Defendant asserts that it has fully performed its obligation under said agreement, and that it has been damaged by the failure of plaintiff and of the four individuals (Jenkins, T. S. Black, W. C. Black and Maguire) to perform their obligations under the agreement. Defendant paid all expenses in connection with the transportation and erection of the worthless still, and defendant paid Jenkins' salary of $150 per month and all his expenses, as provided in the agreement; and defendant furnished material and equipment for the erection of the still at its Coffeyville refinery and paid the salaries of employees and workmen who assisted Jenkins in erecting the still and in demonstrating its worthlessness. All these expenses defendant paid, to its damage, without being able to carry out any experiments with the Jenkins still upon its petroleum products, and without receiving any assistance from Jenkins in any experimental work, as contemplated by the agreement. Plaintiff has suffered no damage through the loan of the worthless still and the failure of the experiments and demonstration contemplated by the agreement, but defendant has suffered damages through expenditures made in demonstrating the worthlessness of the still loaned by plaintiff.

17. And defendant further says that plaintiff's cause of action is barred by the statute of limitations, for the reason that the cause of action set forth in Counts 1 and 2 of de-

[fols. 23 & 24] fendant's declaration is a different cause of action from that set forth in plaintiff's original bill of complaint, and a cause of action pleaded for the first time more than six years after it occurred.

18. Defendant further says that plaintiff's cause of action under the agreement of October 2, 1916, is barred by Section 1773 of the Wisconsin statutes, under which plaintiff is incorporated, which statutes provide as follows:

"No such corporation shall transact business with any others than its members until at least one-half of its capital stock shall have been duly subscribed and at least 20% of its said capital stock actually paid in; and if any obligation shall be contracted in violation hereof, the corporation offending shall have no right of action thereon."

And the defendant says that not so much as 20% of the capital stock of the plaintiff corporation had been actually paid in on October 2, 1916.

EXHIBIT "D" TO BILL

(Here follows Exhibit "D" to Bill, side folios 25 to 25-6, Inc.)

E. W. ISOM.

ART OF CRACKING HYDROCARBONS.

APPLICATION FILED SEPT. 10, 1917.

1,285,200.

Patented Nov. 19, 1918.

4 SHEETS—SHEET 1

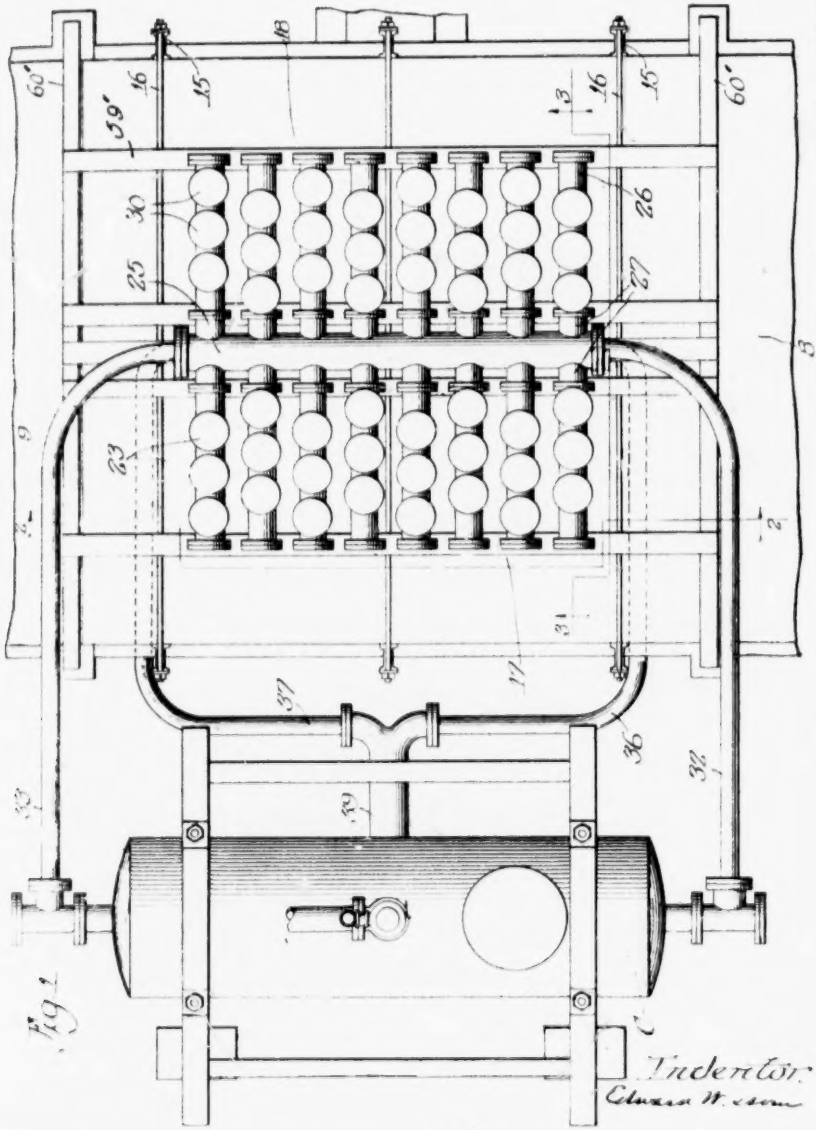

Fig. 1.

Inventor:
Edward W. Isom
By Redwood Gibbon Davis & Morse.
Attys.

25-1

E. W. ISOM.

ART OF CRACKING HYDROCARBONS.

APPLICATION FILED SEPT. 10, 1917.

1,285,200.

Patented Nov. 19, 1918.

4 SHEETS—SHEET 2.

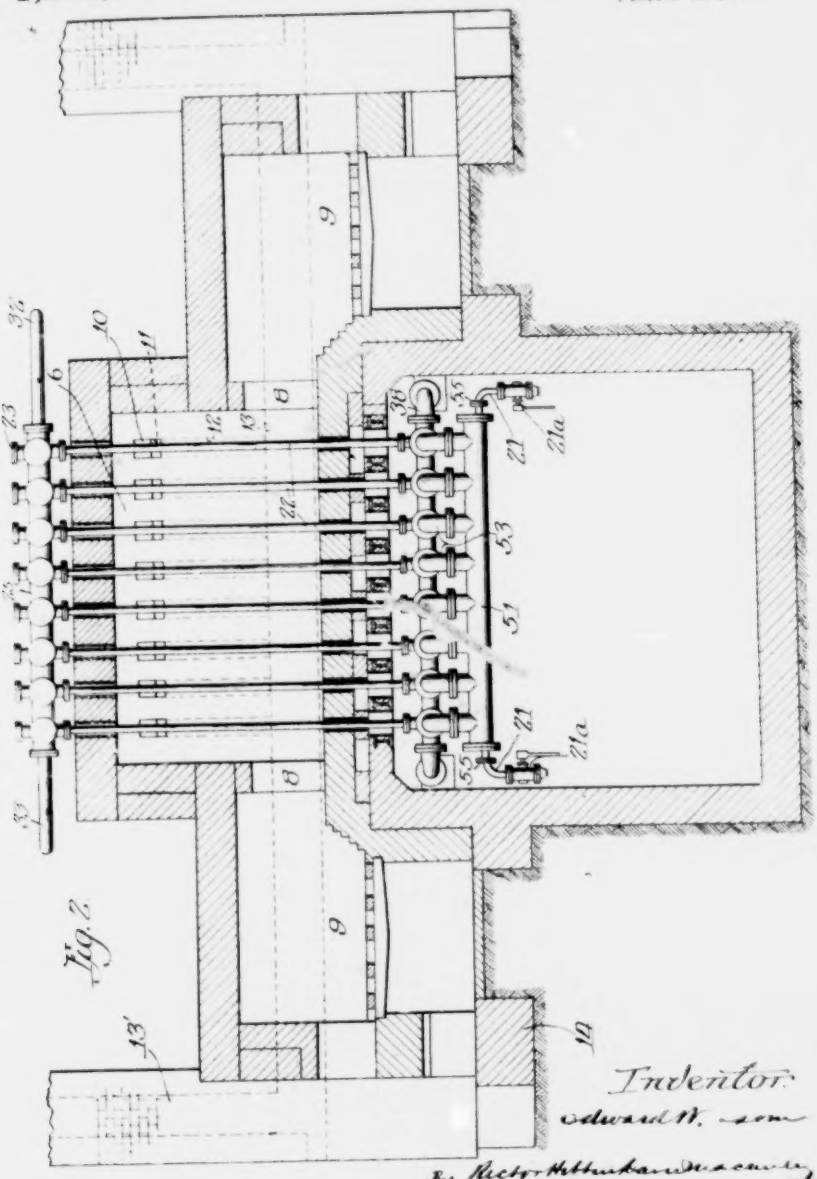

Fig. 2.

Inventor.

Edward W. Isom

By Victor Hibbard & Macauley

Attys

25-2

E. W. ISOM.

ART OF CRACKING HYDROCARBONS.

APPLICATION FILED SEPT. 10, 1917.

1,285,200.

Patented Nov. 19, 1918.

4 SHEETS—SHEET 3.

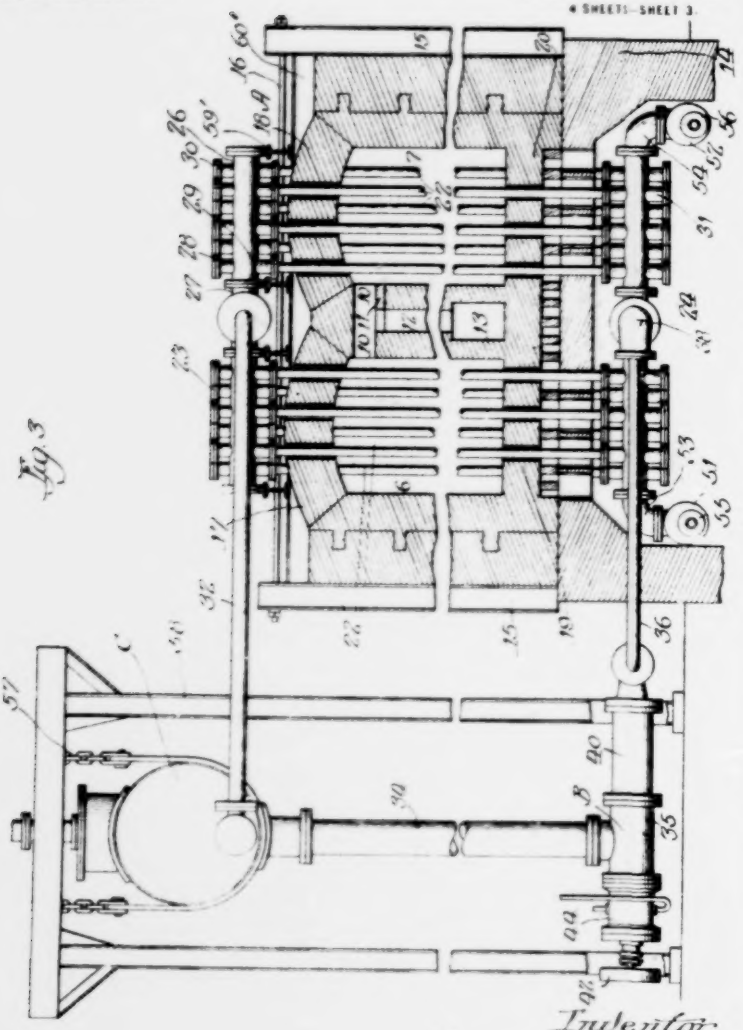

Fig. 3

Inventor

Edward W. Isom

By Kerr Hibben Davis Mackey

Attys

25-3

E. W. ISOM.

ART OF CRACKING HYDROCARBONS.

APPLICATION FILED SEPT. 10, 1917.

1,285,200.

Patented Nov. 19, 1918.

4 SHEETS—SHEET 4.

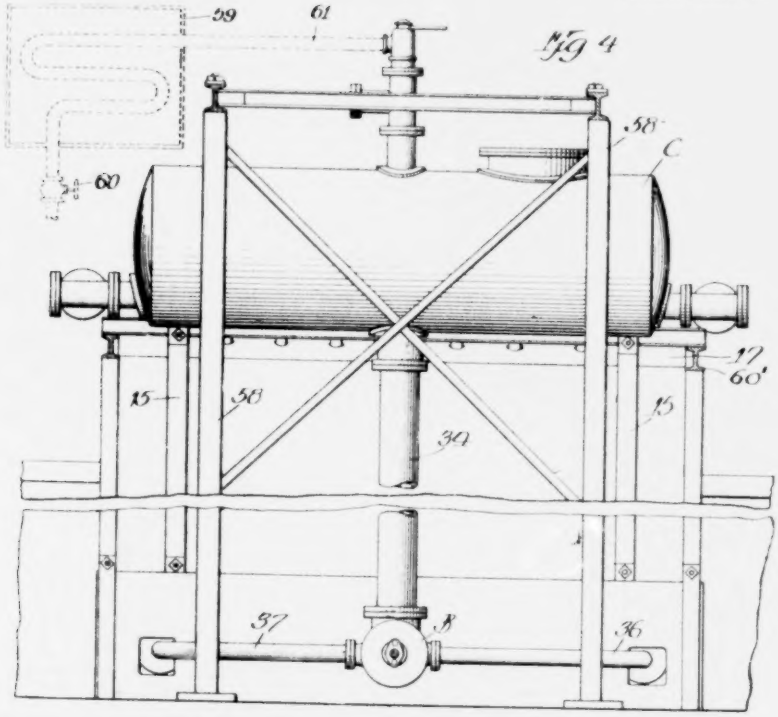

Fig. 4.

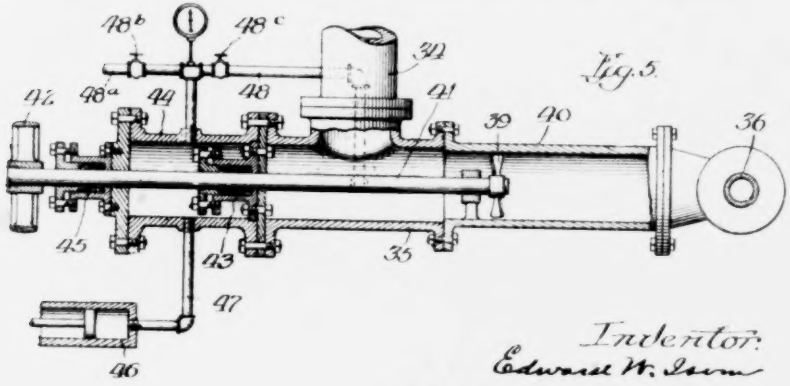

Fig. 5.

Inventor:
Edward W. Isom
By Rector Hibben Davis & Macauley
Attys

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UNITED STATES PATENT OFFICE.

EDWARD W. ISOM, OF CHICAGO, ILLINOIS, ASSIGNOR TO SINCLAIR REFINING COMPANY, OF CHICAGO, ILLINOIS, A CORPORATION OF MAINE.

ART OF CRACKING HYDROCARBONS.

1,285,200. Specification of Letters Patent. Patented Nov. 19, 1918.

Application filed September 10, 1917. Serial No. 190,429.

To all whom it may concern:

Be it known that I, EDWARD W. ISOM, a citizen of the United States, residing at Chicago, county of Cook, and State of Illinois, have invented certain new and useful Improvements in the Art of Cracking Hydrocarbons, of which the following is a specification.

It is well known that when the heavier hydrocarbons contained in petroleum are heated to the necessary degree they break down into lighter hydrocarbons, with the release of more or less carbon. These lighter hydrocarbons are much the more valuable and therefore various processes and apparatus have been devised for so treating the crude petroleum or the heavier fraction thereof as to produce a greater proportion of the lighter hydrocarbons at the expense of the heavier. My invention relates to such a process and apparatus for carrying it out.

While cracking may be accomplished to some extent at a lower temperature, it has been found that for efficient operation a very high temperature is required—temperatures between 600° and 900° Fahrenheit being commonly employed. In order to attain such temperatures it is necessary to heat the oil under high pressure. The combination of high pressure with a temperature far above the ignition point of the material treated makes the refining operation a dangerous one. The danger is very largely increased under the usual working conditions by the deposition of carbon from the cracking operation, which settles at the bottom of the retort or receptacle in which the oil is being treated, more or less insulating the metal from the cooler body of liquid above it. As in the apparatus commonly employed the bottom of the retort or still which receives the precipitated carbon is exposed to the most intense heat, there is a strong tendency for it to become overheated and weaken the metal to such a point that it yields to the pressure within the still. This frequently leads to dangerous conflagrations, due to the ignition of the escaping oil.

It is the object of my invention to provide an apparatus for cracking oil by means of which the liquid is subjected to the required temperature and pressure under such conditions that there is no deposition of carbon or the like upon the highly heated surfaces, such surfaces being so arranged as to furnish no resting place for solids, and moreover, constantly swept clean by a rapid flow of oil under pressure.

In the accompanying drawings I have disclosed a preferred embodiment of my invention. It is to be understood, however, that the specific disclosure is for the purpose of exemplification only, and that the scope of the invention is defined in the following claims in which I have endeavored to distinguish the same from the prior art so far as known to me, without, however, relinquishing or abandoning any portion or feature thereof.

In the drawings accompanying and forming a portion of this application, Figure 1 is a plan view of the preferred form of apparatus for practising my invention; Fig. 2 a vertical section on the line 2—2 of Fig. 1, parts, however, being shown in elevation; Fig. 3 is a vertical section on the line 3—3 of Fig. 1; Fig. 4, an end elevation, partly in section, the structure being partially broken away in this and the preceding figure for the purpose of condensation, and Fig. 5 is a vertical section of a detail on an enlarged scale. Each part of the device is identified by the same reference character wherever it appears in the several views.

As above pointed out, my invention relates more particularly to the means for heating the oil. For this purpose it is passed through a battery of pipes in a furnace A being constantly circulated therethrough by a forcing device B from a tank C to which the oil returns from the pipes. The tank C is connected to a condenser 59, which may be of the usual type, and is therefore shown diagrammatically only in dotted lines at the left of Fig. 4. The worm of the condenser is provided with a suitable valve 60 for withdrawing the distillate as it condenses. Pressure is maintained undiminished throughout the heating pipes, tank and condenser, a pressure of about or more than one hundred pounds being preferably employed.

It will be understood that the liquid is maintained at such a level in the tank C as to provide sufficient vaporizing space above the same, this being accomplished by replenishing or replacing the liquid driven off in the distillation by the means hereinafter described.

The particular design of furnace for heat-

ing the oil circulating pipes is not material to the present invention. I have shown it as comprising horizontal flues 6, 7, which are connected by flues 8, 8. (Fig. 2) with fire boxes 9, 9, arranged upon opposite sides, respectively, of said pair of flues. The flues 6, 7 are connected by outlet flues 10, 10, with down-comer flues 12, leading to a stack-flue 13 intermediate the heating flues 6, 7. Flues 13 are connected to stacks 13'. Down-comer flues 12 are controlled by loose brick dampers 11. The structure may be of refractory brick or the like, resting upon a suitable foundation 14 and is reinforced by buck-stays 15 connected by tie-bars 16. The arches 17, 18 and floors 19, 20 of the heating flues are perforated vertically at suitable intervals for the passage of the batteries of heating tubes or pipes 22, 22, which extend vertically and uninterruptedly through the flues and are connected at top and bottom respectively to manifolds or headers 23, 24. The upper manifold comprises an intermediate main supply pipe 25 arranged above the roof of the flues and intermediate the latter, said main pipe being provided with parallel laterals 26 connected to said main pipe by the branches 27. Each of the laterals 26 is formed with a series of upwardly and downwardly projecting connection branches 28, 29, there being an upper branch or connection in registry with each lower branch or connection, the connections on the respective laterals being staggered, as best shown in Fig. 1. The lower header or manifold 24, except in the respect hereinafter to be pointed out, is similar to the upper manifold 23, and the heating pipes 22 extend vertically between the respective branches on the laterals of the upper and lower manifold and through the roof and floor of the respective flues. The upper branches 28 of the upper manifold 23 are closed by removable handhole covers, plugs or plates 30 of any suitable character, and the lower branches 31 of the lower manifold 24 are similarly closed. Traps 51, 52 are provided at the respective opposite ends of the laterals of the lower header or manifold and are each connected to the end of each of the adjacent laterals by elbows 53, 54 in such manner that the solid and semi-solid contents of the oils tend to settle into said traps. Each trap at its opposite ends has drawoff pipes 21, 21 provided with turning plugs 21^a, 21^a for draining the trap. From each end of the main 25 of the upper manifold, a return pipe 32, 33 leads to the corresponding end of the supply tank C, by means of which pipes 32 and 33 oil is continuously returned from the heating pipes to the tank. From the center of said tank a main 34 leads downwardly to the casing 35 of the oil forcing apparatus from which the oil is distributed by branch pipes 36, 37 to the opposite ends of the main 38 of the lower manifold. The oil forcing apparatus may be of any suitable type, but in the preferred embodiment it consists of a spiral or screw-propeller 39 in a barrel 40, the shaft 41 of the conveyer being provided at its outer end with a driving pulley 42 or other means for transmitting power thereto. Obviously, by rotating the screw-propeller in the proper direction the heavy oil is caused to circulate rapidly from the forcing apparatus upwardly through the heating pipes to the tank, and circulates back through the down-comer to the forcing apparatus. Because of the high pressure a special precaution must be taken for preventing the leakage of oil about the shaft 41, because the oil being above the ignition temperature would immediately ignite on exposure to the atmosphere. To avoid difficulty of this kind a stuffing box is provided about the shaft, (see Fig. 5) and is in turn inclosed in a housing 44, which is likewise packed at 45 about the shaft. Relatively cold oil is circulated through the housing 44 preferably at a pressure somewhat in excess of the pressure within the casing 35 so that if there is any leakage past the stuffing box 43, it will be of the cold oil rather than the hot oil. For this purpose a pump 46, shown diagrammatically in Fig. 5, is connected to a tank containing oil of the character being treated and by pipe 47 to the housing 44. From the housing the oil is led by pipe 48 to the interior of the casing 35 where it mingles with the oil being treated. The oil to maintain the level of the liquid in tank C is supplied in this manner but normally is not altogether sufficient for the cooling of the housing. Therefore I provide a waste pipe 48^a which preferably leads to the supply of oil. Valves 48^b, 48^c control the return or waste-pipe 48^a and the pipe 48 respectively and may be used to regulate the amount of oil introduced into the cracking system. The supply of oil to which the pump 46 and return pipe 48^a are connected is of sufficient size to avoid materially heating it by the return of oil thereto from the return pipe. 50^b indicates a pressure gage for observing the pressure of the oil. Sufficient circulation of the oil through the housing is maintained to prevent its becoming heated to a dangerous temperature so that it is immaterial if there be leakage past the packing 45.

The upper manifold supports the weight of the lower manifold and the heating pipes and is itself supported upon suitable I-beams 59', 60', forming part of the reinforcing structure of the furnace. Thus the pipes 22 are free to expand to the full extent necessary by reason of the great variation in temperature to which the pipes are subjected.

The tank C may be supported in any suitable manner, preferably above the level of

the furnace, and I have shown it as suspended by a stirrup 57 from a scaffolding 58.

The pipes 22 are of such internal diameter relative to the capacity of the oil supplying and forcing means that the oil is rapidly circulated therethrough and are maintained at such high temperature that notwithstanding the rapid circulation the oil is brought to a cracking temperature therein.

The only surfaces subjected to heat are all vertical and constantly swept by the current of oil so that there is little or no tendency for carbon to accumulate thereon and their heat-conductive capacity is therefore not diminished nor are the pipes in danger of overheating. There are no joints within the heated zone but only perfectly straight pipes and by reason of the handhole construction referred to above the pipes may be readily cleaned, there being a straight continuous passage from end to end. The greater proportion of the solid matter is deposited in the traps from which it may be readily removed and any matter accumulating in the lower header may be removed through the handholes on the lower connections thereof.

It is desirable, though not essential, to insert dephlegmators or the like in the connection 61 between tank C and the condenser in order to condense heavier hydrocarbons than those desired and the dephlegmator may be connected with any part of the system as, for example, with the casing 35, to return such heavier oils to the main body for further treatment.

I claim:

1. In a device of the class described, a furnace having heating flues therein, substantially vertical heating pipes extending through said heating flues, a supply tank, a connection from said heating pipes to said tank, a liquid forcing means, and connections from said tank and heating pipes to said means.

2. In a device of the class described, a furnace having heating flues therein, a battery of vertical pipes extending through said flues, manifolds connected to said pipes at their upper and lower ends respectively, a tank connected to both said manifolds, and mechanically operated means for circulating oil to be cracked through said manifolds, pipes and tank.

3. In a device of the class described, a furnace having heating flues therein, a battery of vertical pipes extending uninterruptedly through said flues, manifolds connecting the upper and lower ends of said pipes respectively, a tank connected to both of said manifolds and mechanically operated oil circulating means connected to one of said manifolds and said tank.

4. In a device of the class described, a furnace having heating flues therein, batteries of pipes extending uninterruptedly vertically through said flues, upper and lower manifolds connected respectively to said pipes outside the flues, a tank, connections between said tank and each of said manifolds and circulating means in one of said connections.

5. In a device of the class described, a furnace having heating flues therein, a battery of heating pipes extending uninterruptedly vertically through said flues and through the roof and floor thereof, manifolds connected to said pipes at their upper and lower ends respectively, hand holes in register with the upper and lower ends of said pipes for providing a rectilinear passage therethrough, and means for circulating oil through said manifolds and pipes.

6. In a device of the class described, a furnace, heating pipes therein, a supply tank connected to said heating pipes, a liquid forcing device connected to said pipes and to said tank respectively, a shaft extending into said forcing device for operating the same, and through the wall thereof to a source of power, a housing surrounding the shaft, and means for forcing relatively cool oil into said housing.

7. In a device of the class described, a furnace, heating pipes therein, a supply tank connected to said heating pipes, a liquid forcing device connected to said pipes and to said tank respectively, a shaft extending into said forcing device for operating the same, and through the wall thereof to a source of power, a housing surrounding the shaft, and means for forcing relatively cool oil under pressure into said housing.

8. An apparatus for cracking hydrocarbons comprising a tank for holding a body of oil, a furnace, a series of small vertical pipes in the furnace, means for forcing oil from the tank to the lower ends of said pipes and return connections from the upper ends of the pipes to the tank.

EDWARD W. ISOM.

[fol. 26] IN UNITED STATES DISTRICT COURT

MOTION TO DISMISS—Filed September 24, 1931

Now comes the defendant, Sinclair Refining Company, and moves to dismiss the bill in equity filed herein for discovery against the defendant upon the following grounds:

1. The matters of which discovery is sought are irrelevant and immaterial to the support of any issue which the plaintiff must establish to sustain the action at law referred to in petitioner's bill.

2. The matters of which discovery is sought relate solely to the amount of damages in the action at law, in aid of which the bill for discovery is filed, which amount of damages is not a proper subject of inquiry by bill of discovery.

3. The interrogatroies set forth in said bill for discovery do not call for the disclosure of facts which are proper subject matter of discovery in equity.

4. The defendant corporation cannot be compelled to make the discovery under oath, as asked for in the note at the end of the Bill.

5. The petitioner has a clear, plain, and adequate remedy at law.

Dated Sept. 24, 1931.

Sinclair Refining Company, by Verrill, Hale, Booth & Ives, Solicitors for Defendant. Charles D. Booth, of Counsel.

IN UNITED STATES DISTRICT COURT

OPINION OF THE COURT—Filed February 18, 1932

PETERS, J.:

The litigation in which this bill in equity for discovery is a recent development has its origin in a written contract between the parties, dated October 2, 1916, recited in full in an opinion of this Court in the case of Jenkins Petroleum

Process Co. v. Sinclair Refining Co., 32 Fed. (2d) 247. In [fol. 27] that suit the plaintiff sought by a bill in equity to compel the assignment to it by the defendant of Letters Patent, U. S., 1,285,200, dated November 19th, 1918 (originally applied for by one E. W. Isom, September 10, 1917), claiming that certain improvements in the art of cracking hydrocarbons, covered by said Letters Patent, equitably belonged to the plaintiff under the terms of the contract above mentioned, by which a certain still for treating petroleum, devised by one Jenkins, was loaned to the defendant for experimental purposes with an agreement that any improvements which might be developed as a result of experiments with it should accrue to the benefit of the plaintiff.

It has held by this Court (affirmed by the Circuit Court of Appeals in the case of the same title, 32 Fed. (2d) 252, that the plaintiff had not made out a case entitling it to an assignment of the Letters Patent. The Appellate Court, however, directed that the bill be kept in court for possible further proceedings, and handed down the following mandate:

"The decree of the District Court is affirmed so far as it denies specific performance of the contract of October 2, 1916. But so far as it dismissed the bill as to other issues involved, it is reversed; and as to those issues the case is remanded to the District Court with directions to transfer it to the law side of the court, where within thirty days from the date of this order the plaintiff may have leave to amend its bill of complaint into an action at law for breach of the contract of October 2, 1916."

Under the authority of this mandate the plaintiff amended its bill of complaint into an action at law to recover damages for the alleged breach of the contract of October 2nd, 1916, which contract was in the form of a letter written by the plaintiff to the defendant, in which the following language was used:

"It is further definitely understood and agreed between us that any improvements, whether of a mechanical nature, or in the process, which may be developed as the result of the work of your engineers and experts in familiarizing themselves [fol. 28] with the Jenkins apparatus and process, shall accrue to the Jenkins Petroleum Process Company, and that

you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and to assign said applications, together with the improvements they are intended to protect to the Jenkins Petroleum Process Company."

The declaration, now embracing three counts, alleges in substance that the defendant's expert, Isom, in familiarizing himself with the Jenkins apparatus and process, did develop improvements to which the plaintiff was entitled, and that Isom made an application for a patent covering the same; but that, in contravention of the agreement between the parties, the defendant caused Isom to assign his application to the defendant instead of to the plaintiff, and that the defendant used the application to obtain a patent covering the alleged improvements and has made extensive and profitable use of it, and has failed and refused to compensate the plaintiff for its use.

The allegations in the plaintiff's declaration that the defendant broke the contract because it failed to cause Isom, its agent, to assign his application for letters patent to the plaintiff and to turn over to the plaintiff the improvements that he had discovered in the Jenkins process, are obviously well pleaded, and if there is any breach of the contract it is exactly in that respect. The further allegations that the defendant failed to assign the patent subsequently obtained on the Isom application, but used it widely and profitably in its business and refused to pay the plaintiff for its use, seem to me entirely irrelevant to any issue in the action at law, and indicate that the plaintiff—while it has changed the form of its original action—has not changed its theory that it is equitably entitled either to the Isom patent or to the benefit the defendant reaped from it. As it has been decided that the plaintiff is not entitled to the Isom patent, and as this is [fol. 29] not a suit for infringement, it is clear that the question of the use or the value of the use of the Isom patent by the defendants has no materiality whatever.

The pending suit at law is, and should be regarded simply as an action to recover damages for the failure of the defendant to cause to be turned over to the plaintiff

something alleged to be of value, viz., the Isom application and the improvements covered by it. The letters patent show that Isom assigned his application to the defendant. It is asserted by counsel that the records of the Patent Office show that the application had been so assigned when it was filed, in which case it would seem that any breach occurred not later than September 10, 1917, when the application was filed. For a breach of the contract the plaintiff is entitled to compensation commensurate with its loss at the time of the breach. This cannot take the form of compensation for defendant's use of the property after the breach, even if it is difficult to fix the value of the property or otherwise determine the amount of the plaintiff's loss at the time of the breach.

In this form of action, the plaintiff is entitled to recover the full money equivalent of the property it has been wrongfully deprived of, but "the rights of the parties in respect to a breach of the contract became fixed at the time thereof." 17 Corpus Juris, 880.

The allegation of the plaintiff in its several counts in the declaration that the defendant has "failed and refused to compensate said plaintiff for said wide and extensive and profitable use," occurring over a long period and years after the date of any breach, is mere surplussage and must be so considered when this suit comes to trial.

In this situation and with this background the plaintiff brings this bill of discovery in aid of its action at law, alleging that for the period of ten years or more subsequent to November 19, 1919, the defendant carried on an extensive business in the cracking of petroleum oils, operating many stills embodying the characteristic features of the Isom patent, and producing a large quantity of gasoline and other petroleum products with that patent as the basis of its production; further alleging that the plaintiff cannot [fol. 30] prove its damages in the action at law without information covering the cracking stills operated by the defendant, including the number and nature of stills, to be shown by drawings, etc., the number of barrels of gasoline and other products resulting from its cracking processes from any such stills, and the amount of petroleum oil charged into the stills, setting forth interrogatories to be answered covering operations by the defendant during that period, involving information and figures which its attor-

neys say would require the laborious activities of accountants many months to compile and the disclosure of which to the public might greatly damage the defendant.

The information asked for admittedly relates wholly to the matter of damages. The defendant contends that for that reason, among others, a bill of discovery will not lie, and also that the information asked for is not pertinent to the inquiry under any rule of damages applicable to the case. A motion to dismiss the bill was made and the case now comes up on that motion.

In support of its proposition that a bill will not lie when a discovery sought relates solely to the amount of damages in the action at law, the defendant strongly relies upon two cases in the second circuit, Munger v. Firestone, 261 Fed. 921, and Loose v. Bellows, 266 Fed. 81.

Counsel for plaintiff questions the authoritative value of the Munger case on the ground that it is not in harmony with the older authorities, and that it possibly represents a misapplication of the principle that in an action in which the issues of liability and damages are severable and are not to be tried together, discovery in relation to damages is usually not allowed until the plaintiff has prevailed on the first issue and thereby established his right to some damages; and suggests that the Loose case could have been decided the same way by applying the principle that if a bill for relief and discovery cannot be sustained as to the relief, it necessarily falls as to the discovery.

[fol. 31] The language of the court in the Munger case, and the circumstances of that case, hardly authorize the interpretation suggested by counsel for plaintiff. In this opinion the Court said:

"However, the plaintiff, having gone to law, and having applied to equity solely for discovery, without other relief, can have only such discovery as equity grants. While the inconvenience of the remedy at law may authorize a suit in equity, that fact cannot in any way extend the jurisdiction or course of equity in respect to discovery.

* * * * * * *

"In other words, equity grants discovery in aid of a plaintiff's right or cause of action or in aid of a defendant's defense. These are defined by the issues of the case;

whereas the amount of damages is never at issue. If a plaintiff prevail upon the issues upon his cause of action, he will be entitled to nominal damages, though he prove no damage at all, and of course, if a defendant prevail upon the issues as to his defenses, no damages will be recoverable. The amount of damages is not an issue, but follows the determination of the issues in the case, and discovery is granted only in aid of the issues.

This undoubtedly puts the plaintiff in this particular case in a very embarrassing situation. The trial judge will have to determine when he shall have made out a sufficient case to justify an examination of the defendant's books, papers, etc. A contrary conclusion would introduce a dangerous practice. All a patentee would have to do in order to completely ventilate a competitor's business would be to bring an action at law for infringement and then apply to a court of equity for discovery in aid of it. We speak of the possibility of this danger generally, because no such purpose appears in this case.

No decision upon this precise question has been called to our attention, though it was raised, but not decided, in Colgate v. Compagnie Francaise du Telegraphe de Paris a N. Y. (C. C.), 23 Fed. 82."

[fol. 32] In the Munger case a petition for certiorari was presented to the Supreme Court and denied. 262 U. S., 582. The way the case was presented to the Supreme Court, according to the record, as described by counsel for defendant here, who have examined it, would also indicate that the opinion of the Circuit Court was not open to the criticism suggested by counsel.

The Munger case was a patent infringement case and not an action for breach of contract; but the same Court, in the case of Loose v. Bellows held that the same ruling applied in a suit for breach of contract.

"Chancery grants discovery when the law affords no adequate remedy to extract from a defendant facts in his exclusive possession which are a part of or constitute the cause of action. But mere difficulty of proving his case will not confer on a plaintiff the right to file a bill. United States vs. Bitter Root Co., 200 U. S., 472, 26 Sup. Ct. 318, 50 L. Ed. Equity will not aid law to ascertain damages by entertaining a bill for discovery. Munger vs. Firestone, etc. Co., 261 Fed. 921. A fortiori will it not retain a bill

when the discovery desired has no other purpose that the liquidation of damages."

As the sole purpose of the bill in the instant case is to discover evidence affecting the amount of damages, I hold that for that reason the bill cannot be maintained.

Also, it seems clear that evidence of the value of the use of the Isom patent by defendant long after the date of the alleged breach, as I have fixed it, is not pertinent to the inquiry in the suit at law and it would be inadmissible if offered.

I should regard evidence of value of the Isom patent itself as inadmissible in the absence of evidence referring its value to the date of the breach of the contract.

Assuming that the Isom patent can be identified with the improvements in the Jenkins process which the plaintiff claims to have been deprived of, evidence of its value after the breach could only be admitted as an exception to the general rule that the plaintiff's rights should be determined as of the date of the breach. The plaintiff claims to come [fol. 33] within such an exception, i. e., the rule of the highest intermediate value of the property from the date delivery should have been made to the date of the trial; but this rule is limited by the cases cited and others to cases of conversion of stocks of corporations, and like property, of a speculative character, and would have no proper application here.

A consideration of the evidence sought to be obtained by the plaintiff in this bill and its applicability to the issues presented by the suit at law, leads me to the conclusion that such evidence would be irrelevant and immaterial if offered in the trial of the suit; and of course, under those circumstances, the discovery is futile and should not be allowed.

It is quite apparent from the decisions of the Supreme Court, as well as various courts of appeal, that, while the remedy by a bill of discovery has not been abolished, it may be used only in exceptional cases in the present practice since the enactment of Section 724 U. S. Revised Statutes.

In Bradford v. Indiana Belt R. Co., 300 Fed. 78, the Court of Appeals in its opinion said, "The bill in equity for discovery in aid or defense of actions at law has fallen quite into disuse, since Section 724 U. S. Revised Statutes became effective." The Court quoted the Supreme Court

in Carpenter v. Winn, 221 U. S. 533, where it was said that "The purpose of the provision (i. e. Section 724) is to provide a substitute for a bill of discovery in aid of a legal action." Safford v. Ensign Mfg. Co., 120 Fed. 480; U. S. vs. Bitter Root Development Co., 133 Fed. 274.

I consider that the Court should not require the discovery except on a clear showing where the information desired is very certainly admissible in evidence in the principal suit, and not as evidence merely but as ultimate facts material to the issue. Wolcott v. National Signaling Co., 235 Fed. 224; Taylor v. Ford Motor Co., 2 Fed. (2d) 473.

The claim of the defendant here that irreparable damage would be caused it by answering the interrogatories in the bill, and the obviously great length of time and labor involved in compiling the information required, are addi-[fol. 34] tional reasons for requiring a clear showing by the complainant.

My conclusion is that the motion of the defendant must be granted, and the bill dismissed. A decree has been signed to that effect.

In United States District Court

Decree Dismissing Bill—Filed February 15, 1932

This matter came on to be heard this fifteenth day of February, 1932, on the motion of defendant to dismiss the plaintiff's bill; whereupon, after hearing and consideration thereof, it is

Ordered, adjudged, and Decreed that the motion to dismiss be granted and that the bill be dismissed with costs.

John A. Peters, Judge U. S. District Court, District of Maine.

In United States District Court

Petition for Appeal

The Petition for Appeal is dated May 13, 1932, and was filed in this Court on the same day, together with Assignment of Errors and Bond on Appeal. The appeal was allowed by Peters, J., May 13, 1932.

In United States District Court

Bond on Appeal

This Bond is dated May 13, 1932, and is in the penal sum of $250.00; the obligors are Jenkins Petroleum Process Company as principal, and The Ætna Casualty and Surety Company of Hartford, Connecticut, as surety, and the conditions are that the principal shall prosecute its appeal to effect and answer all damages and costs if it fail to make its appeal good.

In United States District Court

Citation on Appeal

Citation was issued May 13, 1932, returnable June 12, 1932, and service thereof was acknowledged May 13, 1932. For cause shown, the time for return has been enlarged by the Court as shown on the original Citation.

[fol. 35] In United States District Court

Assignment of Errors—Filed May 13, 1932

Now comes the Jenkins Petroleum Process Company, the plaintiff in the above-entitled cause, and files the following assignment of errors upon which the plaintiff will rely upon its prosecution of its appeal in the above-entitled cause from the decree made and entered by this Honorable Court on the 15th day of February, 1932:

1. The District Court erred in dismissing the plaintiff's bill in equity for the discovery by the defendant of facts which rest peculiarly within the knowledge of the defendant and of documents in the possession of the defendant which are material to the support of the plaintiff's case in an action at law entitled "Jenkins Petroleum Process Company against Sinclair Refining Company," at law No. 1178, which is now pending and is undetermined on the law side of this Court.

2. The District Court erred in holding that the allegations in the declaration in said action at law to the effect that the defendant failed to assign to the plaintiff the Isom Patent No. 1,285,200, and that the defendant used the invention of said patent widely and profitably in its business and refused to pay the plaintiff for its use, are irrelevant to any issue in said action at law.

3. The District Court erred in holding that no breach of the contract in suit in said action at law could have occurred or did occur after September 10, 1917, when the application was filed on which said Isom Patent No. 1,285,200 thereafter issued, and when said application was assigned by said Isom to the defendant.

4. The District Court erred in holding [illegible] the only measure of the damages recoverable in said [illegible] at law is the value of said application on which said [illegible] Patent No. 1,285,200 issued, and of the improvement covered thereby, as of September 10, 1917, the date on which [illegible] application was assigned by said Isom to the defendant, and that no facts, acts and or conditions which relate to any date later than said September 10, 1917, can be relevant and material evidence on the issue as to the value of said Isom application and of improvements covered thereby.

[fol. 36] 5. The District Court erred in holding that a bill in equity for the discovery in advance of the trial of an action at law, of facts which rest peculiarly within the knowledge of the defendant and of documents in the possession of the defendant which are material and relevant to the issue of the damages recoverable in said action at law, cannot be maintained in any Court of Equity of the United States.

6. The District Court erred in holding that the evidence sought to be obtained by the bill in equity for discovery herein would not be relevant and material to any issue in said action at law.

7. The District Court erred in holding that since the enactment of Section 724 of the Revised Statutes, bills in equity for discovery in aid of actions at law only can be maintained in the Courts of Equity of the United States in exceptional cases.

8. The District Court erred in holding that irreparable damage would be caused to the defendant if it should be required to answer the interrogatories in the bill in equity for discovery herein.

9. The District Court erred in holding that any great length of time and/or any considerable labor and/or any considerable expense would be involved in compiling the information sought by the bill in equity for discovery herein.

10. The District Court erred in not granting the plaintiff the relief sought by the bill in equity for discovery herein.

11. The District Court erred in not commanding the defendant to make full, true, direct and perfect answer to each of the several interrogatories set forth in the bill in equity for discovery herein, and to attach to the answers to said interrogatories copies fo the various drawings, papers and other documents therein called for.

12. The District Court erred in not holding that the plaintiff is entitled, under the conditions alleged in the bill in equity for discovery herein, to have discovery from the defendant relative to any matter in question which is about to come on for trial in said pending action at law.

13. The District Court erred in not holding that evidence of the use of the invention of said Isom Patent No. 1,285,200 [fol. 37] by the defendant in its commercial cracking of petroleum oils to produce gasoline is not relevant and material to the issue of the damages caused to the plaintiff by the defendant's breach of the contract in suit in said action at law.

14. The District Court erred in not holding that the plaintiff is entitled to recover in said action at law compensation for any gains which it was prevented from obtaining on account of the defendant's breach of the contract in suit in the said action at law.

15. The District Court erred in not holding that, even if the damages recoverable by the plaintiff in said action at law must be measured by the value of said application on which said Isom Patent No. 1,285,200 issued and by the

value of the improvements covered thereby, as of said September 10, 1917, when said Isom assigned said application to the defendant, nevertheless, evidence of every fact, act, condition and/or happening, either prior or subsequent to said date and relevant and material to the question of the value of the invention disclosed in and claimed by said application and of the value of the improvements covered thereby, should be admitted at the trial of said action at law for the purpose of assisting the jury in ascertaining and in fixing the value, as of September 10, 1917, of said application and of the improvements covered thereby.

16. The District Court erred in not holding that the value of the invention disclosed by the application on which said Isom Patent No. 1,285,200 issued, and that the value of the improvements covered thereby, do not necessarily depend upon or coincide with the value of said patent application as of the date it was filed in the United States Patent Office.

17. The District Court erred in not holding that the plaintiff is entitled to recover the full value of the invention disclosed and claimed in said application on which said Isom Patent No. 1,285,200 issued, and in not holding that evidence of the use of said invention in the commercial cracking of petroleum oils to produce gasoline is material and relevant evidence upon the issue as to the value of said invention.

[fol. 38] 18. The District Court erred in not holding that the plaintiff is entitled to recover the full value of the improvements, whether of a mechanical nature or in the process, to protect which said application was filed on which said Isom Patent No. 1,285,200 issued, and in not holding that evidence of the use of said improvements in the commercial cracking of petroleum oils to produce gasoline is material and relevant evidence upon the issue as to the value of said improvements.

Wherefore, the plaintiff and appellant prays that said decree be reversed and that said District Court of the United States for the District of Maine be ordered to enter a decree reversing the decision and the decree of said Dis-

trict Court in said cause and granting the plaintiff the relief prayed for in its bill in equity for discovery.

Philip G. Clifford, C. Stanley Thompson, Solicitors for the Plaintiff.

In United States District Court

Plaintiff's Præcipe for Transcript of Record—Filed May 13, 1932

To the Clerk of the District Court of the United States for the District of Maine, Southern Division:

The Jenkins Petroleum Process Company, the plaintiff in the above-entitled cause, desires the following portions of the record of the above-entitled cause to be incorporated into the transcript on its appeal to the United States Circuit Court of Appeals for the First Circuit, namely:

The plaintiff's bill in equity for discovery, including Exhibits A, B, C and D, which are attached to and are a part of said bill in equity; the defendant's motion to dismiss said bill in equity for discovery; the opinion of the court; the final decree dismissing the plaintiff's bill in equity for discovery, which was filed on February 15, 1932; this præcipe; the notice to counsel for the defendant of the filing of this præcipe; the acknowledgment of service of said præcipe; the plaintiff's petition for appeal, and the plaintiff's [fol. 39] assignment of errors which was filed with said petition, and all orders, citations and decrees of said District Court, and all stipulations of the parties made in connection therewith and in furtherance thereof.

Philip G. Clifford, C. Stanley Thompson, Solicitors for the Plaintiff.

In United States District Court

Defendant's Præcipe for Transcript of Record—Filed May 13, 1932

To the Clerk of the District Court of the United States for the District of Maine, Southern Division:

Sinclair Refining Company, the defendant in the above entitled cause, desires the following portions of the record in the above entitled cause to be incorporated into the tran-

script of its appeal to the United States Circuit Court of Appeals for the First Circuit, in addition to the portions of the record set forth in plaintiff's præcipe, namely:

Plaintiff's original "Bill of Complaint," filed January 21, 1921, of which plaintiff's Declaration (Exhibits A and B attached to plaintiff's bill in equity for discovery) purports to be an amendment; Defendant's Answer to said Bill of Complaint and Counterclaim, filed July 25, 1921; Plaintiff's reply to defendant's Counterclaim, filed August 31, 1921; Defendant's Amendment to Answer to said Bill of Complaint, filed September 25, 1922; the Final Decree in said equity suit, filed August 13, 1926; the Mandate of the Circuit Court of Appeals for the First Circuit in said original equity suit dated July 30, 1929; and the Order of the Court pursuant to said Mandate, transferring the cause from the equity to the law side of the Court.

Verrill, Hale, Booth & Ives, Attorneys for Defendant.

[fol. 40] In United States District Court, District of Maine

In Equity. No. 816

Jenkins Petroleum Process Company, Plaintiff,

vs.

Sinclair Refining Company, Defendant

Plaintiff's Original Bill of Complaint—Filed January 21, 1921

The Plaintiff, Jenkins Petroleum Process Company, a corporation organized and existing under and by virtue of the laws of the State of Wisconsin, files this, its bill of complaint, against Sinclair Refining Company, a corporation organized under the laws of the State of Maine, and thereupon complains and says:

(1) The Jenkins Petroleum Process Company is a corporation duly organized and existing under and by virtue of the laws of the State of Wisconsin, and is a citizen and resident of the State of Wisconsin.

(2) The defendant, Sinclair Refining Company, is a corporation organized and existing under the laws of the State of Maine, and is a citizen and resident of the State of Maine, and was originally organized and known as Cudahy Refining Company, and for a long time carried on its business under the name of "Cudahy Refining Company," and was organized, among other things, for the purpose of treating petroleum products; and on and prior to the second day of October, 1916, was carrying on its business of treating petroleum products under its then name of Cudahy Refining Company, and thereafter, in accordance with the provisions of the laws of the State of Maine, the said Cudahy Refining Company and the stockholders of said Cudahy Refining Company caused the name of said company to be [fol. 41] changed to "Sinclair Refining Company," and the said defendant has since the said change of name carried on the business of treating petroleum products under the name of "Sinclair Refining Company."

(3) The Sinclair Consolidated Oil Corporation is a corporation organized under the laws of the State of New York, and is a citizen and resident of the State of New York, and is the holder and owner of the shares of stock of the defendant, Sinclair Refining Company, or of the great bulk of the shares of stock of the said Sinclair Refining Company, and is also the holder and owner of many other corporations engaged in various enterprises connected with the production, refining and marketing of petroleum and petroleum products, and the said business of the Sinclair Refining Company, and of all the other subsidiaries of the said Sinclair Consolidated Oil Corporation, is conducted as a single enterprise; and the said defendant, Sinclair Refining Company, and all the other subsidiary corporations of the said Sinclair Consolidated Oil Corporation, are entirely controlled by the said holding corporation, and are operated as one enterprise; and, for greater brevity, the plaintiff prays leave to hereafter refer to the defendant, Sinclair Refining Company, as the "Refining Company," and to the Sinclair Consolidated Oil Corporation, as the "Oil Company."

(4) The plaintiff was organized for the purpose of treat-

ing petroleum products and developing processes of treating petroleum products, and for that purpose acquired the ownership of certain processes and useful inventions, heretofore discovered by Ulysses S. Jenkins, including certain letters patent of the United States, dated May 15, 1917, being Letters Patent No. 1,226,526, a copy of which Letters Patent is hereto annexed and marked "Exhibit 1"; and Letters Patent of the United States, dated November 11, 1919, being Letters Patent No. 1,321,749, a copy of which Letters Patent is here*by* annexed and marked "Exhibit 2."

(5) The plaintiff further says that, during the month of June, 1916, Ulysses S. Jenkins, T. S. Black and W. C. Black, all then residents of Chicago, in the State of Illinois, and A. G. Maguire, a resident of Milwaukee, in the State of Wis- [fol. 42] consin, associated themselves in business for the purpose of developing and using the said inventions of the said Ulysses S. Jenkins, and for that purpose the said Jenkins conveyed to the said T. S. Black, W. C. Black and A. G. Maguire an interest in the said inventions and in all patents to be issued thereon so that the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, on or before the 20th day of June, 1916, became jointly the owners of the said inventions and of all patents to be issued thereon, and thereafter the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, for the purpose of utilizing the said inventions and patent rights, undertook the organization of the plaintiff corporation, and in the month of July, 1916, subscribed to the capital stock of the plaintiff corporation, and under date of September 25, 1916, executed the Articles of Incorporation as required by the laws of the State of Wisconsin, at which time the said Jenkins had made the inventions and discoveries described in the said Letters Patent and applied for said Letters Patent; and the plaintiff says that while the United States Patent Office had not finally passed upon the inventions set up in the applications for said patents, nor finally determined just what claims would be allowed, yet it had become evident that if the said inventions were patentable, the said processes and apparatus, and the patents thereon and any improvements thereto, would be of great value to persons engaged in the treatment of petroleum products; and the plaintiff says that the defendant, Sinclair Refining Company, under its then

name of Cudahy Refining Company, applied to the said Jenkins and his said associates for an opportunity to investigate the said Jenkins process of treating petroleum, and stated that if they would allow the said Cudahy Refining Company and its officers and representatives to have full knowledge of the said Jenkins process and apparatus, the applications for patents thereon then pending, and its experimental still, the said Cudahy Refining Company would enter into a contract to purchase the right to use said process and the said patents in and about its treatment of petroleum products, and stated that if the application for Letters Patent on said inventions of Jenkins were granted, [fol. 43] the said Cudahy Refining Company would pay very large sums in royalties, and in the purchase of rights under said patents, amounting to many millions of dollars, but that the Cudahy Refining Company represented that it was necessary to have in its possession the patent applications then pending of said Jenkins, the experimental still of the Jenkins Company, and also to have available the services of said Jenkins in order to adapt the said Jenkins processes and apparatus to its commercial needs, and for use at its various plants and refineries; and said Cudahy Refining Company represented that it would treat confidentially the disclosure of said patent applications, the experimental still, and the instructions of said Jenkins and his associates relative to the nature of the Jenkins apparatus and process, and any improvements thereon; and agreed that any improvements, whether of mechanical nature or in the process which may be developed as a result of the work of the Cudahy Refining Company's engineers, experts and other employes in familiarizing themselves with the Jenkins apparatus and processes, shall accrue to the Jenkins Petroleum Process Company, and shall become and remain the property of said Jenkins and his associates, and thereupon, on or about the second day of October, 1916, the said Jenkins and his associates, acting in the corporate name of the plaintiff corporation, which was then in process of organization and in which the said Jenkins and his associates were the sole parties interested, and the said defendant, Sinclair Refining Company, under its then name of

Cudahy Refining Company, entered into a certain contract and agreement in writing, which was in words and figures as follows:

"Chicago, Illinois, October 2nd, 1916.

Cudahy Refining Company, Chicago, Illinois.

GENTLEMEN: Pursuant to our conversations and conferences relative to the Jenkins Process of treating petroleum, it is understood that we are to loan you our experimental [fol. 44] still to be shipped to Coffeyville, Kansas, so that your experts and engineers may have apparatus immediately available upon which to carry out experiments upon the Jenkins improved process upon your petroleum products.

It is further understood that Mr. Ulysses S. Jenkins, of Chicago, will go to Coffeyville, Kansas, to install the still and will remain in an advisory capacity throughout the entire course of experimental work carried on by your experts, Mr. Jenkins' salary being $150.00 per month, and all expenses, including railroad expenses incurred by him in making trips to Chicago, rendered necessary by said experimental work, this to be paid by you.

It is further definitely understood and agreed between us that any improvements, whether of a mechanical nature, or in the process, which may be developed as the result of the work of your engineers and experts in familiarizing themselves with the Jenkins apparatus and process, shall accrue to the Jenkins Petroleum Process Company, and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and to assign said applications, together with the improvements they are intended to protect, to the Jenkins Petroleum Process Company. This provision is of course rendered necessary by the fact that in the development of a process of this character, and particularly in its application to particular oils, many short cuts and improvements necessarily are developed by the experts entrusted with the carrying out of the process, which belong by right to their employer, and under the circumstances here involved, of course, to the Jenkins

Petroleum Process Company, inasmuch as they are loaning you not only their experimental still, but also the services of Mr. Jenkins, the inventor himself.

[fol. 45] It is further understood that all expenses in connection with the transportation of the still and incidental expenses shall be paid by you, and that as soon as your engineers and experts have carried on sufficient work with this still to thoroughly familiarize themselves with the process and discover the best conditions under which to apply the process to your petroleum products, the still will be returned in good condition to us, and that Mr. Jenkins' salary will continue from the time the still is first shipped to Coffeyville, until such time as it is returned.

Yours very truly, Jenkins Petroleum Process Company, by A. G. Maguire, President.

This letter and agreement accepted and approved.
Cudahy Refining Company, by W. H. Isom, Pres."

The plaintiff says that W. H. Isom was then the President of the Cudahy Refining Company, and its chief executive officer, and duly empowered to execute the said contract on its behalf, and that Edward W. Isom, hereinafter referred to, was the son of W. H. Isom, and was an engineer in the employ of the said Cudahy Refining Company, and the plaintiff says that promptly thereafter the incorporation of the plaintiff was fully completed in accordance with the laws of the State of Wisconsin and on the 9th day of October the Certificate of Incorporation of the plaintiff corporation was duly issued by the Secretary of State of the State of Wisconsin, and on the 16th day of October, 1916, the said Certificate of Incorporation and the Articles of incorporation were duly recorded in the County of Milwaukee, in the State of Wisconsin, and thereafter the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, in pursuance of their previous agreement and undertaking at the time of the subscription by them to the shares of stock of the plaintiff corporation, conveyed to the plaintiff corporation all their interest in and to the said [fol. 46] inventions of the said Jenkins and in and to all applications for Letters Patent therefor and in and to all patents which would be thereafter issued in connection with the said inventions or any improvements or developments thereof.

(6) The plaintiff says that, in pursuance of said agreement of October 2, 1916, the plaintiff did in fact loan to the defendant, Sinclair Refining Company, apparatus theretofore invented and constructed by the said Ulysses S. Jenkins, the applications for patents thereon then pending, being substantially the apparatus described in said Letters Patent, Exhibits Nos. 1 and 2; and the said Ulysses S. Jenkins, who was and is in the employ of the plaintiff, and who then was and still is a stockholder of the plaintiff and actively interested in the said plaintiff, went to the works of the said defendant at Coffeyville, in the State of Kansas, and there erected the said apparatus, and the said Jenkins spent a great part of his time at the plant of said defendant, and fully informed the said defendant and its employes and officers, particularly the said Edward W. Isom, as to the nature of the said inventions and discoveries, and discussed with the officers and employes of the said defendant, the plans and ideas of the said Jenkins for the further development and improvement of the said apparatus and process, and to the best of his ability instructed the said officers and employes in the art in which said processes and apparatus were used and to be used, and in all respects the said Jenkins and said plaintiff, and its other officers and employes, carried out in good faith the terms of the said contract of October 2, 1916, for the purpose, among others, of so adapting the said process and apparatus to the uses and needs of the said defendant that the said defendant would be able to use the same in the conduct of its said business, and would be able and willing (as the said defendant had assured the plaintiff it would be willing in such event) to pay to the plaintiff very large sums of money, to acquire the right to use the said patents, and to further agree to pay further very large sums by way of royalties for the continued use thereof.

[fol. 47] (7) The plaintiff further avers that the said defendant, for a long time after the said second day of October, 1916, and while the said defendant was familiarizing itself with the said process and apparatus, and acquiring the knowledge of the art and the suggestions as to the improvements in the art made by the said Jenkins as aforesaid, claimed that said processes and apparatus would be of great value to it, and that it had become convinced of

the merits of the said processes, and of the value of the said apparatus, and would be willing to acquire the same, and to pay very large sums of money, aggregating many millions of dollars, therefor, if the said applications for Letters Patent should be granted, and if patents should be allowed and issued; and the said defendant at various times caused drafts of contracts to be made, covering the various propositions from time to time suggested by the said defendant to the plaintiff, and by various assurances and promises gained and enjoyed the confidence of the plaintiff and its officers, and induced the said plaintiff and its officers, and the said Jenkins, to continue to instruct the said defendant in the said art, and to permit the said defendant to continue to possess, use, and experiment with the said apparatus so invented and manufactured by the said Jenkins, and so owned by the plaintiff, as aforesaid.

(8) The plaintiff shows that the said Edward W. Isom, on or about the tenth day of September, 1917, having acquired the ideas and gained instructions from the said Jenkins and the other officers and employes of the plaintiff, as aforesaid, surreptitiously and without the knowledge of the plaintiff or its officers or representatives, filed a certain application for Letters Patent of the United States, and thereafter, without the consent of the plaintiff, procured Letters Patent of the United States to be issued, under date of November 19, 1918, being Letters Patent No. 1,285,200, a copy of which Letters Patent is hereto annexed and marked "Exhibit 3."

(9) The plaintiff further says that the said apparatus described in the said Letters Patent, Exhibit 3, was developed as a result of the opportunities afforded to the engineers and experts and employes of the said defendant to familiarize themselves with the said Jenkins' apparatus [fol. 48] and process, and that the said apparatus, and process resulting from the use of the said apparatus, as described in the said Letters Patent, Exhibit 3, embody the essential features of the said patents belonging to the plaintiff, and in so far as the said apparatus and process have any merit or utility in the art, such merit and utility consist simply in improvements and adaptations of the said Jenkins apparatus and processes.

(10) And the plaintiff says that the said apparatus prepared by the said Jenkins remained in the possession of the said defendant during all the time that the said Isom was engaged in the preparation of the said apparatus and process described in the said Letters Patent, Exhibit 3, and the plaintiff alleges that in fact the said defendant has ever since retained, and now has in its possession, the said apparatus, and is still availing itself of the information which the possession of the said apparatus enables it to obtain by a study thereof and experiment therewith.

(11) The plaintiff says that the said Edward W. Isom was at all times, in connection with the matters aforesaid, acting entirely under the direction and control of the said defendant.

(12) The plaintiff says that the said defendant, regardless of its obligations arising under the terms of the said contract of October 2, 1916, and also arising from the acts and dealings between the parties, and from the confidential communications made to the said defendant by the plaintiff, did not cause the said Isom to assign his applications for the said Letters Patent, or to turn over the said improvement and processes to the plaintiff, but, on the contrary thereof, the said defendant, under its name of "Sinclair Refining Company," caused the said Edward W. Isom to assign his said Letters Patent to the said defendant.

(13) The plaintiff says that the said defendant, having obtained an assignment of the said alleged patent of the said Edward W. Isom, Exhibit 3, thereafter disregarded its obligations to the plaintiff arising under the said contract, and out of the dealings between the plaintiff and the said defendant hereinbefore set forth, and began the erection of stills at various plants of the said defendant and its [fol. 49] affiliated companies, and turned over or attempted to turn over the control of the said apparatus, process and of the said method of "cracking" petroleum products to the Sinclair Consolidated Oil Corporation; and thereafter the said Oil Company caused it to be publicly proclaimed and advertised that it had obtained control of valuable patents on improved processes in "cracking" petroleum products and that its said patent rights, and the processes under its control, were of vast value, and that other persons, em-

ploying similar processes for "cracking" petroleum products, would be subject to litigation and to liability to pay heavy royalties or damages to the said Oil Company, in case they should attempt to use such processes or infringe upon the alleged patent rights of the said defendant; and the plaintiff says that not only have the said defendants refused to carry out their said contracts and obligations with the said plaintiff, but by their said actions, they have greatly hampered the plaintiff in entering into contracts with third parties for the use of the patents and processes owned by the plaintiff, under its said patents and the processes invented by the said Jenkins as aforesaid.

(4) The plaintiff, promptly after it had learned of the said action of the said Isom in obtaining the said Letters Patent, and in assigning the same to the defendant Refining Company, demanded of the said defendant Refining Company that it assign to the plaintiff, and cause the said Isom to assign to the said plaintiff, the said patent and all other processes, apparatus and improvements discovered or invented by the defendant, their engineers, experts, employes or agents while in the possession of the said apparatus so invented by the said Jenkins, and devised or developed by the employes of the defendant Refining Company after it or they had received full information from the said apparatus, patent applications and the said Jenkins in the art, as hereinbefore set forth; but the plaintiff says that the said defendant, disregarding its obligations in that behalf, has not caused the said inventions or Letters Patent to be assigned to the plaintiff; and the plaintiff on information and belief alleges that the said defend-[fol. 50] ant has no intention of performing its obligations to the said plaintiff in connection with the improvements and developments of the said Jenkins apparatus and processes, heretofore made, or which hereafter may be made by the said defendant through the knowledge gained by them from the use of the said Jenkins apparatus and process, the patent applications thereon, and the instructions obtained from the said Jenkins, as aforesaid.

(15) Plaintiff says that the said Oil Company is a corporation of great size, which claims to have assets of over two hundred and sixty-five millions of dollars, and claims to have earned, during the year 1919, an amount in excess of

seventy-six million dollars; and through itself and its subsidiaries claims to carry on its business operations not only throughout the United States but over the greater part of the world, and in its public advertisements claims that it is and will be enabled to largely increase the value of its products and to obtain a much larger percentage of gasoline than could otherwise be obtained, because it has equipped its oil refineries with complete installations and has added to said oil refineries so-called "cracking" processes, and that such improvements increase the quantity of materials which are available for the use of the said oil company in manufacturing those products of petroleum which are regarded as most valuable; and, in advertising its said business, the said Oil Company has incorporated the following statements in its advertisements and prospectuses, viz.: "The cracking process owned and operated exclusively by the Sinclair Company has been investigated by expert petroleum refining engineers, and has been declared by them to be the most efficient," and the plaintiff says that the said acts and statements of the said Oil Company are all made in behalf of and under the direction and with the consent of the defendant company.

(16) The plaintiff says that the said installations referred to by the said Oil Company in its said advertisements and prospectuses, and the "cracking" process claimed to be exclusively owned and operated by the Sinclair Company, and referred to in its said advertisements, were and are either the discoveries, inventions and pro- [fol. 51] cesses of the said Jenkins, now owned by the plaintiff, or are improvements, modifications and developments thereof devised and contrived by the defendant and its employes through the use of the said apparatus of the said Jenkins, and the said information, instruction and opportunities for investigation which were afforded to the said defendants under and in pursuance of the understandings had prior to the said second day of October, 1916, and in pursuance of the terms of the said agreement of October 2, 1916.

(17) The plaintiff says that any invention or process which enables a refinery to extract from the crude oil or heavier petroleum products a larger percentage of gasoline is a process of very great and increasing value, and the

plaintiff believes that a large part of the earnings of the said Oil Company, stated by it to have been in excess of $76,000,000, for the year 1919, was derived from the use of the said apparatus and process, and that a continually increasing amount of profits will from year to year arise from the use of the said apparatus and process by the said defendant and the said Oil Company and its other subsidiaries.

(18) The plaintiff says that the Sinclair Consolidated Oil Corporation, and the subsidiaries of said Sinclair Consolidated Oil Corporation other than the Sinclair Refining Company, are not within the jurisdiction of this court, and this plaintiff is informed and believes and therefore alleges that neither said Sinclair Consolidated Oil Corporation, nor any of its said subsidiaries other than the Sinclair Refining Company, is subject to the service of process within this district, or within the State of Maine, and therefore the plaintiff has not made such other Companies parties defendant to this its bill of complaint.

(19) Plaintiff states that this is a cause of action between citizens of different states, and that the amount of controversy exceeds the sum or value of Three Thousand ($3,000.00) Dollars, exclusive of interest and costs.

Wherefore, and inasmuch as this plaintiff is without remedy except by the aid of this Honorable Court, this plaintiff states that it is entitled to and prays that it may receive from this Honorable Court—

[fol. 52] (a) A decree directing the defendant to assign and transfer to this plaintiff the invention or improvements of the said Letters Patent of the United States, issued to Edward W. Isom, November 19, 1918, No. 1,285,200, together with all rights thereunder, and any and all patents in other countries or applications therefor relating to said improvements or invention, and all rights thereunder, and also to assign and transfer to the plaintiff all other improvements or inventions, whether of mechanical nature or relating to processes or methods which have been developed, or in the process of development as a result of the engineers, experts and other employes of the defendant company, in familiarizing themselves with the Jenkins ap-

paratus and processes, and all patent applications wherever pending or in course of preparation relating thereto; and that said defendant shall be required and decreed, so far as it is able to do so, to cause its engineers, experts and other employes to execute applications for patents in the United States and other countries, to protect any such improvements, the plaintiff hereby offering to pay the expense of such applications, and that the defendant be directed and decreed to itself assign, or cause its employes to assign said applications, together with the improvements which said applications are intended to protect, to the plaintiff.

(b) That defendant be required to disclose to the plaintiff the result of any and all experiments, tests and operations made or attempted by it or any of its experts, engineers, agents, employes and servants since the second day of October, 1916, relating to the process or apparatus described or disclosed in the United States Letters Patent to Jenkins, No. 1,226,526, Letters Patent to Jenkins, No. 1,321,749, and Letters Patent to Isom, No. 1,285,200, plaintiff's exhibits 1, 2 and 3, and to deliver to the plaintiff all records, books, documents and memoranda relating to such results, experiments or work, or in the alternative to permit the plaintiff, at its own expense, to make full and complete copies of all such records; and that plaintiff be given [fol. 53] access to the various plants of the defendant and its affiliated companies, to determine the extent and use of the apparatus and processes of the Jenkins and Isom patents, and any improvements thereon.

(c) That the defendant be required to account to the plaintiff for all profits which have accrued to it, or which have accrued to the Sinclair Consolidated Oil Corporation, or to any of the subsidiaries of the Sinclair Consolidated Oil Corporation arising out of the use of the process and apparatus disclosed and described in the Isom patent No. 1,285,200, or from the use of any improvements, whether of mechanical nature or in the process which has been developed as a result of the work of the engineers, experts and other employes of the defendant company in familiarizing themselves with the Jenkins apparatus and process.

(d) That the defendant be enjoined and restrained, provisionally and perpetually, from using in or about its said

business, or permitting any company associated or affiliated with it and having a common control with the said defendant, from using any of the said processes, inventions and improvements described or disclosed in the Isom patent No. 1,285,200, dated November 18, 1918, being Exhibit 3 to this bill of complaint, or from using any improvements, whether of mechanical nature or in the process which has been developed as a result of the work of the engineers, experts and other employes of the defendant company in familiarizing themselves with the Jenkins apparatus and process, or from so using any of the inventions, devices or improvements disclosed to the said defendant by the said Ulysses S. Jenkins and his associates, and by the experimental still, in pursuance of the said arrangements set forth in the contract of October 2, 1916.

(e) That the defendant be required to account to the plaintiff for all damages done the plaintiff by virtue of its violation of and failure to comply with the said contract of October 2, 1916, and defendant's and its associated or affiliated companies' representations to the public concerning the ownership of the said Isom patent and the other improvements of the said Jenkins apparatus and process.

[fols. 54–56] (f) That this cause may be referred to a Master to take, state and report an account of the profits and damages arising by reason of the said wrongful acts and doings of the defendant, and that plaintiff have judgment for the amount of profits and damages so found and reported, and the costs of this suit; and that said Master have all the powers conferred upon Masters by law and the rules in equity.

(g) That this plaintiff may have such other and further relief in the premises as it may be entitled to receive in a court of equity.

May it please this Honorable Court to grant a writ of subpœna in chancery in accordance with the rules and orders of this court directed to the said defendant, Sinclair Refining Company, requiring it to appear on a certain day before this court then and there full, true and direct answer to make to all and singular the premises, but not under oath, the answer under oath being hereby expressly waived, and further to perform and abide by such

further order, direction and decree herein as may be just and equitable and as to the court may seem proper.

And the plaintiff will ever pray, etc.

Jenkins Petroleum Process Company, by W. C. Black, President. Parkinson & Lane, Mayer, Meyer, Austrian & Platt, Its Solicitors. Wallace R. Lane, Henry Russell Platt, of Counsel.

Duly sworn to by W. C. Black. Jurat omitted in printing.

[fol. 57] EXHIBITS 1 AND 2 TO BILL OF COMPLAINT

(Here follow Exhibits 1 and 2 to Bill of Complaint, side folios 58 to 58-4 and 59 to 59-7)

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U. S. JENKINS.

METHOD OF OBTAINING GASOLENE AND OTHER LIGHT OILS FROM HEAVIER HYDROCARBONS.

APPLICATION FILED JULY 13, 1916.

1,226,526.

Patented May 15, 1917.

2 SHEETS—SHEET 2.

Fig. 2

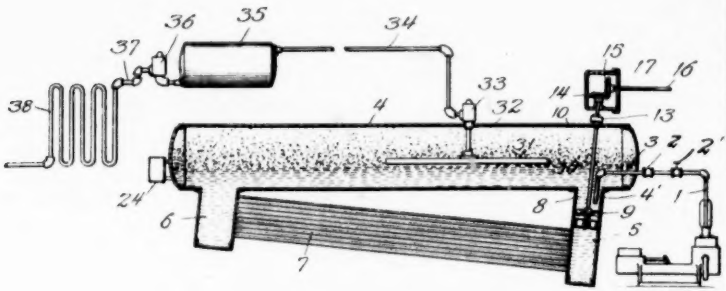


Fig. 4

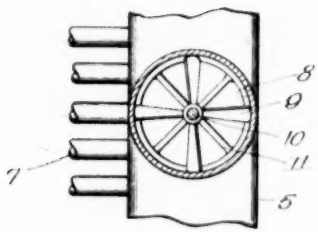


Fig. 3.

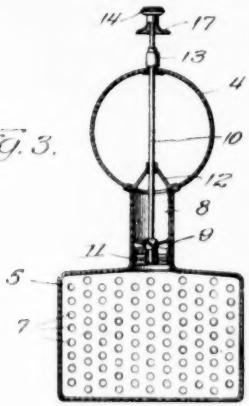
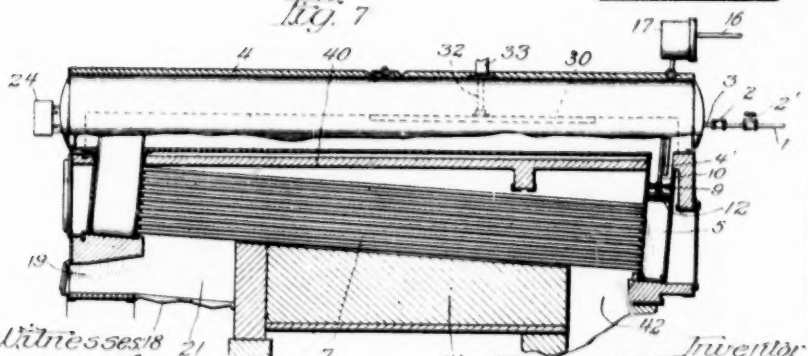


Fig. 7



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58-1

U. S. JENKINS.

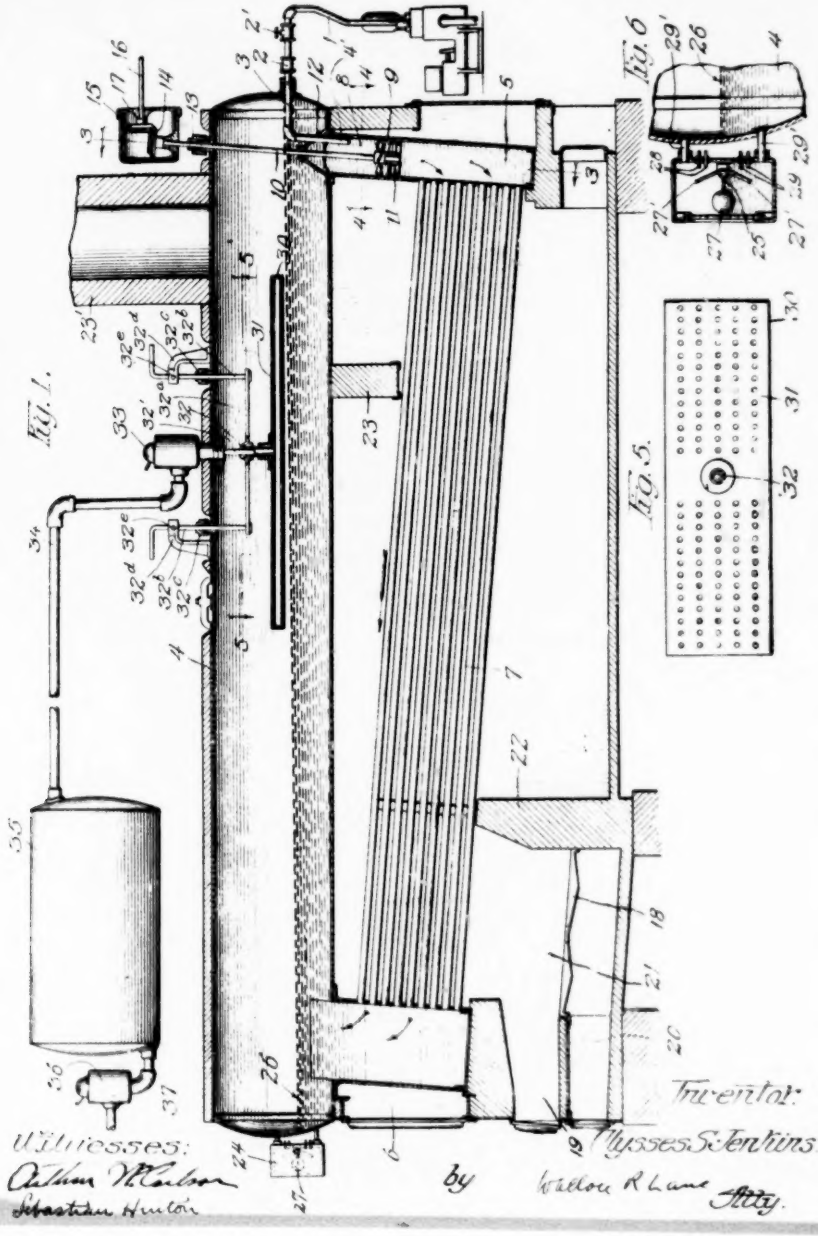
METHOD OF OBTAINING GASOLENE AND OTHER LIGHT OILS FROM HEAVIER HYDROCARBONS.

APPLICATION FILED JULY 13, 1916.

1,226,526.

Patented May 15, 1917.

2 SHEETS—SHEET 1.



Witnesses:
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by Walton R. Lane Atty.

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UNITED STATES PATENT OFFICE.

ULYSSES S. JENKINS, OF CHICAGO, ILLINOIS, ASSIGNOR, BY MESNE ASSIGNMENTS, TO JENKINS PETROLEUM PROCESS COMPANY, OF MILWAUKEE, WISCONSIN, A CORPORATION OF WISCONSIN.

METHOD OF OBTAINING GASOLENE AND OTHER LIGHT OILS FROM HEAVIER HYDROCARBONS.

1,226,526. Specification of Letters Patent. Patented May 15, 1917.

Application filed July 13, 1916. Serial No. 108,983.

To all whom it may concern:

Be it known that I, ULYSSES S. JENKINS, a citizen of the United States, residing at Chicago, in the county of Cook and State of Illinois, have invented certain new and useful Improvements in Methods of Obtaining Gasolene and other Light Oils from Heavier Hydrocarbons, of which the following is the specification.

This invention is for a method and apparatus for treating heavier hydrocarbons such as petroleum oils, and particularly a method and apparatus whereby a condensable, light oil may be obtained from petroleum and its by-products.

It is an object of my invention to provide a method for treating heavier hydrocarbons whereby they may be transformed with a minimum of waste through the production of permanent gases or of carbon, into gasolene and other condensable light by-products, it being entirely unnecessary to empty and refill stills or the like to treat separate charges of the petroleum oil, the process being continuous from beginning to end, so that the heavier hydrocarbons may flow continuously through pipes from the source of supply to the apparatus in which its treatment is carried out and a substantially equal quantity of light, condensable oil, such as gasolene, will flow continuously from that apparatus.

Another object of the invention is to provide apparatus whereby the conversion of heavier hydrocarbons may be carried out and in which circulation is so controlled and effected that deposit of carbon will be reduced to a negligible amount.

Other features of novelty, advantages and capabilities will become apparent from the detailed description of the accompanying drawings, in which I have illustrated a device embodying one form of my invention, and one which can be used for carrying out my new and improved method, but the construction there shown is to be understood as illustrative only and not defining the limits of my invention.

Figure 1 is a sectional elevation of apparatus designed for carrying out my improved method. Fig. 2 is a diagrammatic view illustrating the course of treatment of the heavier hydrocarbons. Fig. 3 is an end elevation of a positive circulatory apparatus. Fig. 4 is a top plan view of the pump construction. Fig. 5 is a top plan view of the collecting device for the gases. Fig. 6 is a vertical sectional view of the controller for maintaining a constant level in the boiler, and Fig. 7 is a modification of a device embodying my invention.

In the drawings, the heavier hydrocarbon is pumped from the source of its supply through the feed pipe 1, in which is the check valve 2, control valve 2′, and through the inlet pipe 3 terminating in a downwardly directed portion 4′ inside the still. The still comprises a strongly reinforced tank or barrel 4, having depending legs 5 and 6, connected by a series of tubes 7, which slope upward as shown.

The rear or lower leg of the boiler comprises an enlarged chamber 5, which is connected to the barrel 4 by a circular passageway 8, in which is mounted a propeller 9 upon the shaft 10, having a bearing at its lower end upon the spider construction 11, passing through the spider 12 and passing out through the barrel through stuffing box 13, and equipped at its top with a bevel gear 14, in mesh with which is a bevel gear 15 upon a power shaft 16, the bevel gears 14 and 15 being preferably incased in the housing 17.

Below the still, comprising the barrel 4, legs 5 and 6 and tubes 7, supporting and inclosing this construction, is a fire box, comprising grates 18, fuel inlet passage 19, ash pit 20, fire box 21, the fire being confined at its rear by the baffle 22, so that the products of combustion sweep upwardly and backwardly along around the tubes, being directed downwardly by the baffle 23 and then permitted to whirl up again at the rear of the device, out around the barrel and through the flue 23′. By this means a uniform, graduated degree of heat is maintained throughout a substantial portion of the length of the tubes 7, which serves to efficiently heat the liquid flowing through these tubes.

From the description so far given, it will be understood that the supply of heavier hydrocarbons flowing in through feed pipe 1, controlled by valve 2, and being directed behind the propeller 9 is mechanically forced or pumped downwardly in leg 5 and then upwardly through the tubes 7, and through

the leg 6 and into the barrel 4. This positive driving or pumping of the fluid causes a controlled and rapid circulation of the entire liquid contents of the still around or back through the barrel 4, down leg 5, up through the barrel tubes, through leg 6 and back into the barrel again.

It is to be particularly noted that the leg 6 is made larger than the leg 5, the purpose of this being to accommodate the expansion of liquid, which takes place in the tubes 7, particularly at or near their upper ends, and to prevent the possibility of a flare back, which is apt to occur if the enlarged and ebullient volume of hotter fluids must be confined in a leg of the same size as that which holds the more condensed and non-ebullient fluid, *i. e.*, the leg which precedes the tubes. By the provision of enlarged leg 6, as well as by the mechanically forced rapid circulation induced by the propeller 9, this flaring back of gases and vapors into the lower leg 5 is prevented.

I maintain the liquid level in my apparatus constant. This is done by means of a level indicator and controller 24, (see Fig. 6) comprising a bracket 25, to which is pivoted at the level point 26, a float 27, having contacting arms 27', the apparatus being so constructed that if the float 27 rises, one of the arms 27' will be rocked backwardly to close a pair of contacts 28, whereas if the float falls, the other arm 27' will be rocked in the opposite direction to bridge a pair of contacts 29. The level controller is in open communication with the barrel 4 by the hollow supporting tubes 29' and is provided with a glass face, as shown. By causing the bridging of one pair of contacts to flash a red light, while the bridging of the other pair flashes a blue light, or by direct electrical control thereby of the feed valve 2', or by other means well known in the art, I maintain the level in the barrel at a constant point, the form of level indicator being entirely immaterial, any efficient form being equally well employed.

Suspended from the top of the barrel 4 is a gas and vapor collector, comprising a large, flat hollow container 30, imperforate at its bottom and sides but having a perforated top 31, the interior being in communication with the pipe 32, which is telescopically connected to the pipe 32', leading out of the barrel 4 through the adjustable pressure relief valve 33, such valves being well known in the art, and no detailed showing thereof being necessary. From the pressure relief valve the gases and vapors flow through the pipe 34 to the expansion chamber 35 and thence through the pressure relief valve 36 and pipe 37 to a condenser 38, from which gasolene and other light by-products may be drawn. It is particularly to be noted that the collector 30 is suspended low in the barrel 4, quite near to the level of the liquid in the barrel 4. The gas and vapors collector or container 30 is adapted to be moved upwardly or downwardly so as to take off gases and vapors of different densities as desired. To effect this adjustment, the pipe 32 is rigidly connected at one end to the gas and vapor collector 30 and its opposite end passes through the journal in the arm 32^a and is provided at its extreme end with an outwardly extending flange adapted to rest on the arm 32^a so as to move upwardly therewith. For raising and lowering the arm 32^a and gas collector 30, I provide a pair of rods 32^b, which extend upwardly through stuffing boxes 32^c and thence upwardly through openings in the supporting arms 32^d, which arms are provided with set screws 32^e. From this it will be seen that by merely unscrewing the set screws and grasping the handles of the rods 32^b, the gas and vapor collector may be raised or lowered as desired, and after being moved to the desired position there held by tightening the set screws.

In operation, the liquid contents of the still are rapidly circulated around through the barrel, depending legs and tubes of the apparatus while a brisk fire is maintained on the grate 18. The result will be the release of gaseous and vaporous products and the generation of pressure in the apparatus, evolved gases and vapors collecting in the space above the constant liquid level in the barrel 4, wherein they will tend to arrange themselves at least temporarily according to their densities—that is to say, the lighter gases and vapors will take position near the top of the barrel 4 and the heavier gases and vapors collect below them, so that the average density of the gases and vapors at different levels will be different. The temperature of the reaction may, of course, be controlled by controlling the fire in the fire box. The pressure in the apparatus is controlled by the adjustable pressure relief valve 33, which is set to maintain the pressure in the apparatus at a point which, in combination with the temperature and the time of treatment, will result in the most efficient transformation and conversion of the heavier hydrocarbons being treated into the desired product. The evolved gases and vapors under whatever pressure the pressure relief valve 33 is set for, are selectively tapped by means of the gas and vapor collector 31, which may be set at any level in the barrel 4 to take off relatively heavier or lighter gaseous and vaporous products as desired, and which would tend to increase the proportion of permanent gases such as hydrogen, which will naturally tend to collect near the top of the barrel 4, in the apparatus, while continuously taking off therefrom heavier condensable gaseous and va-

porous products such as gasolene. By controlling pressure, temperature and rate of circulation in the apparatus, the conditions required for the complete transformation of the heavier hydrocarbons into the desired product can be obtained.

For instance, if I set the pressure relief valve 33 at 200 pounds, a constant pressure of approximately 200 pounds will be maintained in the apparatus, and the transformations which will occur by reasons of the controlled temperature, and pressure, will take place continuously in the still, new heavier hydrocarbons being supplied as required through feed pipe 1 to maintain a constant liquid level in the barrel 4, as that which preceded it is transformed into light oil. In actual operation, the entire process occurs smoothly and quietly, the oil flowing rapidly around and around through the apparatus, and condensable gases and vapors continuously flowing off through the collector 30.

The gases and vapors passing through the pipe 34 are permitted to expand against a low pressure of say, for instance, ten pounds, controlled by the pressure relief valve 36, in the expansion chamber 35, and are thus effectively reduced in temperature, after which they are passed through condensers and liquefied in a common and well known manner.

An important feature of the invention is the mechanical circulation of the product through the tubes 7. By means of this mechanical circulation, the deposit of carbon in these tubes is rendered practically impossible. This deposit, which is unavoidable and constitutes a very serious and expensive trouble in the operation of petroleum stills heretofore made, is caused by the fact that the liquid cannot be made to pass rapidly enough through the heated tubes, and passing slowly over these hot tubes, it is "cracked" too fine, with the resulting release of a large proportion of permanent gas and the resulting deposit of carbon. By means of the positive circulatory system, the liquid may be made to circulate at any desired speed, absolutely preventing its being suddenly heated or over-heated at any point, no matter how hot the fire may be, which practically prevents the deposit of carbon.

In Fig. 7 I have shown a modification in which I provide a shield 40 between the fire and the barrel 4 so that the entire heating must be effected by means of the tubes 7. In this modification the space underneath the tubes is filled up solid as shown at 41. The flames, passing down around the tubes, escape through flues 42, surrounding but separated from the barrel. This method of treatment may sometimes be preferable.

Having now described my invention, I claim:—

1. The method of obtaining light oil from heavier hydrocarbons which consists in heating said heavier hydrocarbons in a still, maintaining pressure in said still, permitting gases and vapors of greater average density than that of the lowest produced in said still, to escape at selective points below the top of the chamber, subsequently condensing said vapors and forcing fresh heavier hydrocarbons into said still to make up for that transformed into said vapors.

2. The method of obtaining light oil from heavier hydrocarbons which consists in forcing heavier hydrocarbons into a still, heating said heavier hydrocarbons in the still whereby the same will be vaporized and gasified and the vapors will arrange themselves temporarily according to their densities, tapping said gases and vapors at a point where a comparatively large proportion of condensable gases and vapors is found by pressure relief means adapted to maintain the pressure in the still at a point conducive to the most complete conversion of the heavier hydrocarbons into a light oil.

3. The method of obtaining gasolene and other light oils from heavier hydrocarbons consisting in pumping the hydrocarbons into a still, forcing the same through heated tubes inclined upwardly from the receiving to the delivery end thereof, and through a circulating chamber connecting the receiving and delivery ends of the tubes whereby the entire liquid contents of the still will be in constant circulation through the tubes and chamber and the vapors and gases will constantly be evolved from the liquid, then taking the vapors thus generated from a level above the liquid most conducive to a complete removal of the condensable vapors and below the top of the chamber, substantially as described.

4. The method of treating heavier hydrocarbons, which consists in causing the entire body of the same to circulate simultaneously through a chamber and heating devices in succession applying heat to said heating devices and drawing off selectively from said chamber evolved gases and vapors of greater average density than the lightest produced in the chamber.

In witness whereof, I hereunto subscribe my name to this specification in the presence of two witnesses.

ULYSSES S. JENKINS.

Witnesses:
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U. S. JENKINS.

APPARATUS FOR TREATING PETROLEUM PRODUCTS.

APPLICATION FILED SEPT. 27, 1916.

1,321,749.

Patented Nov. 11, 1919.

2 SHEETS—SHEET 2.

Fig. 3.

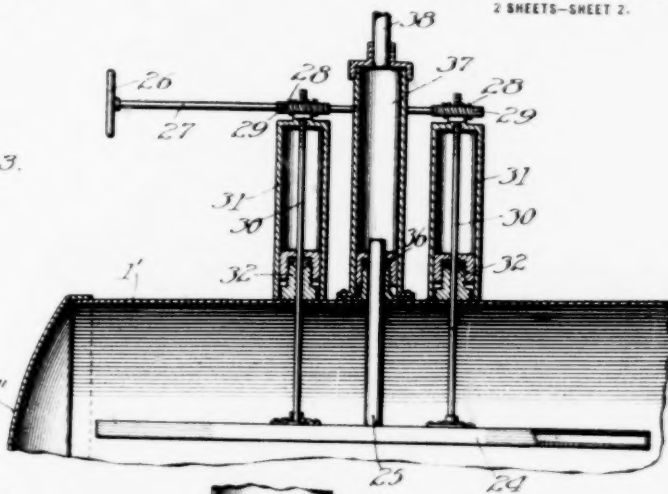


Fig. 4.

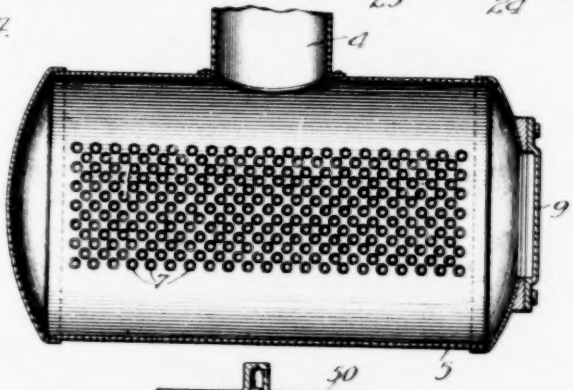
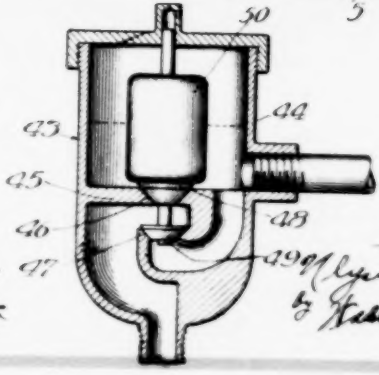


Fig. 5.



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606

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APPARATUS FOR TREATING PETROLEUM PRODUCTS.

APPLICATION FILED SEPT. 27, 1918.

1,321,749.

Patented Nov. 11, 1919.

2 SHEETS—SHEET 1.

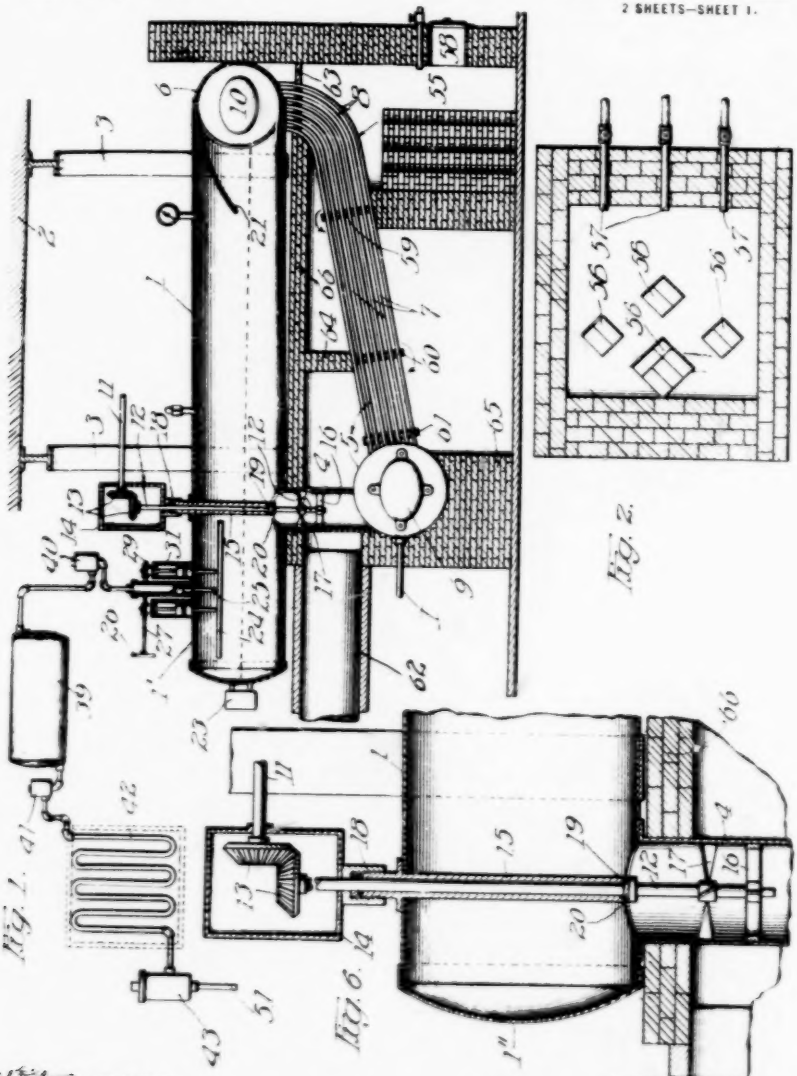

Fig. 1.

Fig. 2.

Fig. 6.

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By Wallace R. Lane
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UNITED STATES PATENT OFFICE.

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APPARATUS FOR TREATING PETROLEUM PRODUCTS.

1,321,749. Specification of Letters Patent. Patented Nov. 11, 1919.

Application filed September 27, 1916. Serial No. 122,333.

To all whom it may concern:

Be it known that I, ULYSSES S. JENKINS, a citizen of the United States, residing at Chicago, in the county of Cook and State of Illinois, have invented certain new and useful Improvements in Apparatus for Treating Petroleum Products.

This invention relates to apparatus for treating petroleum products, and has for an object the accomplishment of the method disclosed in my co-pending application, Serial No. 108,983, for treating heavier hydrocarbons, such as petroleum oils, whereby the condensable light oil may be obtained from petroleum and its by-products.

It is a further object of my invention to provide means for treating heavier hydrocarbons whereby they may be transformed with a minimum of waste through the production of permanent gases or of carbon into gasolene and other condensable light by-products, it being entirely unnecessary to empty and re-fill stills or the like to treat separate charges of the petroleum oil, the process being continuous from the beginning to the end, so that the heavier hydrocarbons may flow continuously through pipes from the source of supply to the apparatus in which its treatment is carried out, and a substantially equal quantity of light, condensable oil, such as gasolene, will flow continuously from that apparatus; further, to provide apparatus whereby the conversion of heavier hydrocarbon may be carried out and in which circulation is so controlled and effected that the deposit of carbon will be reduced to a negligible amount.

It is a further object of this invention to improve the construction of a gas generating apparatus involving circulatory tubes whereby the circulation is rendered more simple and the liability of its being ruptured under extreme conditions of heat and temperature are reduced.

It is another object of this invention to provide apparatus of the class described in which a quiet region is provided for the gas take-off in combination with the gas take-off apparatus adapted to selectively take off gases generated in the still.

It is another object of my invention to provide improved firing and fire control in the apparatus described.

It is another object of my invention to provide a distilling system whereby liquid is fed into the system and liquid taken off therefrom, substantially no gas being permitted to escape at any stage of the process.

Other objects and advantages will appear as the description to follow proceeds.

In the drawings:—

Figure 1 is a partly cross sectional elevation of my apparatus, partly diagrammatic;

Fig. 2 is a cross sectional plan view showing the firing chamber;

Fig. 3 is an enlarged detail cross sectional view showing the control for the gas take-off;

Fig. 4 is a cross sectional elevation of the mud leg construction;

Fig. 5 is a cross sectional view of the gas closure valve;

Fig. 6 is a cross sectional fragmentary view of a modified construction showing the drum 1 otherwise as in Fig. 1 but terminating near the edge of the furnace instead of projecting beyond the same.

In the drawings, 1 represents the barrel or drum of a still, suspended from an overhead support 2 by a plurality of straps 3 so as to impose no weight whatever upon the brickwork underneath it which serves solely to confine and direct the flames. The barrel 1 of the still is provided at its rear end with a circular depending mud leg 4, which feeds into the transverse drum 5 of substantially the same diameter as the barrel 1. The product to be treated is pumped under pressure through the inlet pipe I into the crosshead 5. Another transverse drum 6 is arranged across the forward end of the still and in open communication therewith, and a large number of tubes 7 are welded at their ends to the two crossheads 5 and 6 and to the bottom of the drum 1 where the bottom of this drum intersects and overlies the periphery of the crosshead 6.

The tubes 7 are bent, as indicated at 8, so as to afford a smooth and easy passage for liquid flowing from crosshead 5 into crosshead 6. This arrangement of the tubes is important and advantageous for the reason that the gradual bend in the tubes at the point 8 in effect affords at the upper end of the tubes a large chamber comprising the entire inside of the barrel 1, whereas at the foot of the tubes the liquid is compelled to

pass through the connecting leg 4 which is of smaller diameter than cross head 6 and the depending leg 4 which is completely filled with liquid so that as the liquid passes upward through these tubes and is subjected to the increasing heat of the fire, its expansion and ebullition will take place in the large unconfined chamber comprising the drum 1, whereas the cooler contracted liquid is in the smaller connecting leg 4 in which the liquid is more confined. The bend has another important function in that it serves to take up the expansion or contraction of the tubes 7 without placing strain on the welded joints by which they are welded to the crossheads 5 and 6. If straight tubes are used, expansion and contraction serves to put undue strains upon their joints or the points of union at their ends.

The construction thus disclosed has other advantages, in that a single manhole cover 9 or 10, one upon either of the crossheads, may be used to admit a workman to the interior of either of the crossheads, from which point all of the tubes 7 may be cleaned by a flexible cleaner of the kind well known without the necessity of removing the cap of each individual tube. This of course renders the whole apparatus safer and easier to manipulate and reduces the liability of leakage or rupture.

I have provided a mechanical circulatory apparatus comprising a shaft 11, driving the shaft 12 through means of beveled gears 13 in the housing 14, the shaft 12 passing downwardly through a sleeve 15 into the tubular mud leg 4, in which it has a bearing in the spider 16, and in which is located the propeller 17, so that by this mechanical circulatory apparatus liquid in the still can be made to circulate back from the front as far as the mud leg 4, down this mud leg, up the inclined tubes and back again as rapidly as desired.

I have devised a novel self-sealing connection for the shaft 12 to absolutely prevent the escape of any gas therethrough, while at the same time this shaft is permitted to rapidly and easily rotate. The shaft 12 is freely revoluble in the sleeve 15, which is equipped at its upper end with a gland 18, packed as customary. At its lower end, the sleeve 15 has a preferably phosphor-bronze insert 19, against which is seated the conical face of the shoulder 20 on the shaft 12. It is obvious that the pressure generated in the still will cause the conical face of the shoulder 20 to bear against the phosphor-bronze insert 19 and afford a self-sealing, absolutely tight joint, which at the same time is always lubricated because it is under the surface of the liquid level in the still.

The liquid circulating rapidly through the still might tend to cause a serious disturbance at the front thereof as it boils up out of the pipes 7, which disturbance, unless more or less checked, might tend to prevent the absolute quietness I desire to produce at the rear end of the still. To serve this purpose, I provide a baffle 21, as indicated, which prevents any serious disturbance from running back along the still from its front, the liquid boiling up out of the tubes 7 striking this baffle 21 and quietly dropping into the liquid in the barrel 1.

It is an important feature of the invention that I carry the barrel 1 of the still considerably back beyond the mud leg 4, as indicated by the extension 1', at the end of which I preferably place the liquid level indicator 23 to indicate the level of the liquid in the still as explained in my co-pending application. This extension on the still serves an important purpose inasmuch as it provides a quiet pool beyond the rapid circulatory system, the circulation reaching back only as far as the mud leg 4 so that gases and vapors generated in the still and flowing out of the liquid both out of the upper end of the pipes 7 and along the body of the still may collect in an absolutely undisturbed place free from currents, eddies, or the like so as to encourage as much as possible the arranging of the vapors and gases in layers, which is an important feature of my invention. In other words, the light gases and vapors generated in the still, while they may be more or less mixed up with the heavier gases and vapors at the front end thereof, where there is violent agitation, by the time they have flowed back to the utterly undisturbed rear projection 1' on the still, have assumed a higher position than the heavier gases and vapors so that they are fairly well separated. I provide a collector 24 comprising a wide flat, box-like construction having holes in its top, which may be vertically adjusted by means of the handle 26, shaft 27, worms 28, operating worm wheels 29 fast upon screw threaded shafts 30 operating in sleeves 31 and packed by glands 32, as indicated. Shafts 30 are fastened at their lower ends to the gas collector 24. The interior of the gas collector 24 is in communication through pipe 25 passing through glands 36 with the interior of the sleeve 37, which communicates with the pipe 38 carrying the gases through an expansion chamber 39 by way of pressure relief valve 40, where the gases may expand passing therefrom through the pressure relief valve 41 into a condenser 42. At the outlet side of the condenser 42 is a gas retaining valve 43, shown in enlarged cross sectional detail in Fig. 5, comprising a casing 44 having a web 45 therein which makes two seats 46 and 47 in which are respec-

tively seated the two valves 48 and 49 upon the shank of the float 50. This valve is adapted to permit liquids to escape but will seal the apparatus against the escape of any gas whatever. Specific details of its construction are not involved in the present invention but are disclosed in the patent to Poindexter No. 1,146,276, issued July 13, 1915, a feature of the invention here involved, however, being the application of such a valve or its equivalent to a still of the character being described.

By the mechanism just described, it is readily perceived that the pressure relief valve 40 having been set to any desired pressure that pressure will be maintained continually in the still and the collector 24 may be set at a level to take off from the quiet region in the still, wherein there is no circulation and no disturbance and where the gases and vapors may arrange in layers, the particular gases and vapors desired for condensation, leaving the other gases and vapors in the sphere of the reaction where, by the well known theory of mass reaction, they will prevent the formation of any more gases and vapors of their own kind. The result of this operation is that continued operation of the still will transform a very large proportion or all of the fuel supplied to the still into the particular gases and vapors being taken off through the collector 24 and, if desired, into condensable gases and vapors which are cooled in the expansion chamber 39, pass through the pressure relief valve 41, preferably set quite low, pass through the condenser 42, and run out from the outlet 51.

It is an important feature of the invention that substantially no hydrogen or other gas is permitted to escape from the process. The provision of a special means to this end is of the greatest advantage. The contemplated purpose of my new still is to transform heavy petroleum product into light condensable oil such as gasolene and the like, these oils preferably consisting of saturated hydrocarbons. The crude petroleum products contain the constituents required to make a relatively large quantity of light gasolene if all of the constituents of the product being treated can be maintained in the reaction and none of the light gases escape. It is because of the escape of light gases, such as methane and hydrogen, robbing the product undergoing treatment of a disproportionate amount of hydrogen, that in ordinary processes a great deal of carbon is deposited and a small percentage of gasolene and light fractions can be obtained. Substantially all the permanent gases and hydrogen permitted to escape result in a corresponding amount of unsaturated hydrocarbons and deposited carbon. In my apparatus, therefore, by providing the gas retaining valve 43 at the end of the process, I make it substantially impossible for any permanent gas to escape from the system, so that I keep substantially all of the hydrogen in the product being treated to saturate the resulting hydrocarbon compounds and permit none of the hydrogen to be wasted with the resulting product of unsaturated hydrocarbon compounds and deposit of carbon.

To heat the still, I provide a fire chamber 55 in which are arranged a number of preferably square piers 56 of different sizes, against the corners of which fuel is driven at a high velocity out of the feed nozzles 57, the air for combustion entering through the opening 58. The streams of fuel out of the nozzles 57 will strike angularly upon the piers 56 and ricochet from one pier to another and up against and off the walls of the fire chamber, being thus broken into the finest possible particles, and thus completely and most efficiently consumed. Of course a coal, or any other kind, of fire might be employed instead of the firing arrangement just described, but I believe this to be a very efficient and inexpensive arrangement particularly adapted to refineries and petroleum treating plants, wherein liquid fuel is cheaply available. The hot gases and flames from the fire pass upwardly around the pipes 7, as indicated by the arrow, over a baffle 59, down behind a baffle 60, up in front of the baffle 61, and out through the flue 62. A baffle 63 is provided which prevents the hottest flames from striking the cross-head 10 or the unions at the upper ends of the pipes 7. The baffle 64 is also provided to force the stream from the fire to take the undulatory path just described. The furnace is confined at its rear and sides by the brickwork 65, and the barrel of the drum 1 is entirely baffled away from the fire by the brickwork 66 so that nothing is subjected to the direct heat of the fire except the reach of the tubes 7 between the baffles 61 and 63.

In the modification represented by Fig. 6 the projection of the drum beyond the edge of the furnace is omitted and a space is afforded above the level of the liquid hydrocarbons in which the gases and vapors given off will be confined substantially at rest out of the line of circulation of the liquid hydrocarbons, such gases and vaporous products tending to temporarily arrange themselves therein according to their densities, the lighter at the top and the heavier below.

I claim:

1. In apparatus for obtaining light oil from heavier hydrocarbons, a still in which said hydrocarbons may be heated to evolve gases and vapors, means for maintaining pressure in said still, means for removing the

gases and vapors of greater average density than that of the lowest produced in the still, said last mentioned means being adjustable whereby to remove said gases and vapors at selective points below the top of the still, and mechanical means for creating a positive circulation of the liquid contents of said still.

2. In apparatus for obtaining light oil from heavier hydrocarbons, a still in which said hydrocarbons may be heated under pressure to evolve gases and vapors, vertically adjustable means for removing the gases and vapors at selective points above the surface of the liquid contents of the still, and a mechanical circulatory apparatus for creating a positive circulation of said liquid contents, to increase the amount of gas and vapor evolved, and prevent the deposit of carbon on the still surfaces.

3. In apparatus for obtaining light oil from heavier hydrocarbons, a drum having a passage depending therefrom, inclined tubes connecting said passage back to the drum, means for causing the entire body of liquid to positively circulate simultaneously down said passage, upwardly through said inclined tubes, and back through said drum to evolve gases and vapors, and means for selectively drawing off evolved gases and vapors of greater average density than the lightest produced in the drum.

4. In apparatus for obtaining light oil from heavier hydrocarbons, a drum having a passage depending therefrom, inclined tubes connecting said passage back to the drum, and a mechanical circulatory apparatus in said depending passage adapted to cause a positive circulation of the liquid hydrocarbons down said passage, upwardly through said inclined tubes, and back through said drum to said passage, and vertically adjustable means for removing the gases and vapors at selective points below the top of the drum.

5. In apparatus of the class described, a firebox, a drum, a passage depending therefrom, means to circulate liquid in said drum, down said passage, said drum being extended beyond said passage to afford a portion out of direct contact with the heat from the firebox to afford a quiet region in which there is practically no circulation.

6. In apparatus of the class described a firebox, a drum, a passage depending therefrom, inclined boiler tubes connecting said passage back to said drum, and means to cause a circulation down said passage upwardly through said inclined tubes, and back to said passage, said drum being provided with an extension beyond said passage to afford a quiet region in the still, in which the evolved vapors will arrange themselves temporarily according to their densities, said extension being out of direct contact with the heat from the firebox.

7. In apparatus of the class described, a firebox, a still, means for causing the positive mechanical circulation of the liquid therein, and an extension on said still out of direct contact with the heat from said firebox to maintain liquid in a quiet state, substantially undisturbed by said circulation.

8. In apparatus of the class described, a firebox, a still adapted to convert liquids into gases, means for causing a positive circulation in said still out of direct contact with the heat from said firebox, an extension on said still to provide a quiet region independent of said circulation, and a gas take-off apparatus adapted to take off gas above said quiet region.

9. In apparatus of the class described, a firebox, a still, circulatory means to cause positive circulation therein, means for maintaining a portion of the liquid in said still out of the range of said mechanical circulation and of the direct heat from the firebox to form a quiet region and in open communication with the remainder of the liquid in said still, and a gas take-off located in the quiet region.

10. In apparatus of the class described, a still adapted to convert liquids into gases and vapors, a circulatory system in said still, a quiet region in said still to permit said gases and vapors to arrange themselves temporarily according to their respective densities, and take-off means to selectively take off gases and vapors from said quiet region.

11. In apparatus of the class described, a still, a circulatory system therein, a quiet region therein adapted to permit the evolved gases and vapors to arrange themselves temporarily in layers according to their densities, and take-off means comprising a collector in open communication with the pipe leading out of said still, and means to adjust said collector vertically to take off gases and vapors from different strata of said quiet region.

12. In apparatus of the class described, a still, a circulatory system therein, a quiet region in said still out of the range of circulation to permit the evolved gases and vapors to arrange themselves temporarily according to their densities, and vertically adjustable means in said quiet region to selectively take off said stratified gases and vapors.

13. In apparatus for obtaining light oil from heavier hydrocarbons, a still in which said hydrocarbons may be heated under pressure, said still comprising a drum having a downwardly extending passage, a crosshead at the lower end of said passage, a crosshead in said drum, inclined tubes con-

necting said crossheads, circulatory apparatus in said passageway for causing a positive and simultaneous circulation of said heavier hydrocarbons down said passageway, upwardly through said inclined tubes and back through said drum, and a vertically adjustable take-off for removing at selective points below the top of the drum evolved gases and vapors of greater average density than that of the lowest produced in said still.

14. A still comprising a portion adapted to be subjected to gas vapor generating influences and a chamber connected with said still adapted to permit the gases and vapors generated to flow thereinto and arrange themselves temporarily in layers according to their densities, and a take-off to selectively tap the gases and vapors of desired density.

15. In apparatus for obtaining light oil from heavier hydrocarbons, a still comprising a horizontal drum, a furnace, a series of heating tubes passing through the furnace, connections establishing communication between the respective ends of the tubes and the drum, said drum being adapted to contain a comparatively shallow elongated uninterrupted moving body of heavier hydrocarbons, which also fills said tubes and connections, mechanical means outside the drum to cause the main body of the heavier hydrocarbons to simultaneously and rapidly circulate through said drum, tubes, and connections, to successively apply heat thereto for increasing the amount of gases and vapors evolved and preventing the deposit of carbon on the passage walls.

16. A still for treating heavier hydrocarbons to obtain light oil therefrom, comprising a chamber, a series of heating tubes outside said chamber, mechanical means for simultaneously circulating the main body of liquid hydrocarbons through the heating tubes and mechanically uninterruptedly through said chamber, means for directly heating the liquid hydrocarbons in the tubes while circulating it, and means above the circulating liquid hydrocarbons for drawing off the evolved gases and vapors as and for the purposes set forth.

17. A still for treating heavier hydrocarbons to obtain light oil therefrom, comprising a chamber, a series of heating tubes outside said chamber, mechanical means for simultaneously circulating the main body of liquid hydrocarbons uninterruptedly while passing through the heating tubes and said chamber, means for directly heating the liquid hydrocarbons in the tubes while circulating it, means above the circulating liquid hydrocarbons for drawing off the evolved gases and vapors, and means for feeding heavier hydrocarbons into the still to maintain the level of the liquid in said chamber, substantially constant while circulating the liquid hydrocarbons.

18. In apparatus for obtaining light oil from heavier hydrocarbons, a still comprising a drum, a series of tubes, means for heating the tubes, connections establishing communication between the respective ends of the tubes and the drum, said drum adapted to contain a body of heavier hydrocarbons which also fills said tubes and connections, a rapidly rotating propeller between the drum and tubes to cause the main body of the heavier hydrocarbons to simultaneously circulate through said drum, tubes and connections to successively apply heat thereto for increasing the amount of gases and vapors evolved and preventing the deposit of carbon on the passage walls, and means for feeding the heavier hydrocarbons into the still while circulating the hydrocarbons therein.

19. In apparatus for obtaining light oil from heavier hydrocarbons, a still in which liquid hydrocarbons may be treated under pressure to evolve gases and vapors, a mechanical circulating apparatus creating a forced circulation of said liquid contents, said still comprising a series of heating tubes and a drum through which said liquid hydrocarbons pass uninterruptedly in said forced circulation, said drum having a space above the body of liquid and out of the line of said forced circulation in which the gases and vapors evolved are temporarily retained in a substantially quiet zone while the simultaneous circulation of the main body of the liquid through the drum and tubes proceeds, means for drawing off said gases therefrom, and means for forcing heavier hydrocarbons into the still while circulating the liquid contents in the still, and continuing uninterruptedly the withdrawal of said evolved gases and vapors.

20. In apparatus for obtaining light oil from heavier hydrocarbons, a still in which liquid hydrocarbons may be treated under pressure to evolve gases and vapors, said still comprising a drum, a series of tubes, and passages connecting the ends of said tubes with said drum, and a mechanical circulating apparatus outside the drum for creating a forced circulation of said liquid contents uninterruptedly through said drum and supplying sufficient liquid to fill each tube of the series to its full capacity under an excess pressure at the entry end of the tubes, thereby causing a simultaneous circulation of the liquid through all of said tubes and said drum.

21. In apparatus for obtaining light oil from heavier hydrocarbons, a still in which liquid hydrocarbons may be treated under pressure to evolve gases and vapors, said

still comprising a drum, a series of tubes, and passages connecting the ends of said tubes with said drum, and a mechanical circulating apparatus outside the drum for creating a forced and mechanically uninterrupted circulation of said liquid contents through said drum and supplying sufficient liquid to fill each tube of the series to its full capacity under an excess pressure at the entry end of the tubes, thereby causing a simultaneous circulation of the liquid through all of said tubes and said drum, said circulating apparatus comprising a propeller mounted in the passage connecting the front end of the tubes with the drum.

In witness whereof I hereunto subscribe my name to this specification in the presence of two witnesses.

ULYSSES S. JENKINS.

Witnesses:
T. S. BLACK,
A. G. MAGUIRE.

Exhibit 3 attached to this bill is Patent No. 1,285,200 and is identical with Exhibit D attached to bill for discovery. See page 24 of this record.

[fol. 60] IN UNITED STATES DISTRICT COURT

ANSWER TO ORIGINAL BILL, No. 816—Filed July 25, 1921

The defendant, Sinclair Refining Company, a corporation organized and existing under and by virtue of the laws of the State of Maine, answering the Bill of Complaint herein says:

First. It has no knowledge sufficient to constitute a belief as to the allegations of paragraph 1 of said Bill of Complaint.

Second. It admits the allegations of paragraph 2 of said Bill of Complaint.

Third. In answer to said paragraph 3 of said Bill of Complaint, the defendant admits that the Sinclair Consolidated Oil Corporation is a corporation organized under the Laws of the State of New York and is a citizen and resident of the State of New York and is the owner of certain of the shares of the stock of the defendant and is also the owner of certain of the shares of the stock of other corporations, but denies that the defendant herein is one of many corporations conducted and operated by said Sinclair Consolidated Oil Corporation as a single enterprise, and alleges that defendant is a separate and distinct corporate entity functioning independently of the said Sinclair Consolidated Oil Corporation in its corporate acts and deeds, and defendant denies all allegations in said paragraph 3 contained inconsistent with these allegations.

Fourth. The defendant has no knowledge or information sufficient to constitute a belief as to the allegations of paragraph 4, of the Bill of Complaint.

Fifth. In answer to paragraph 5 defendant has no knowledge sufficient to constitute a belief as to the allegations "that during the month of June, 1916, Ulysses S. Jenkins, T. S. Black, and W. C. Black, of Chicago, Illinois, and A. G. Maguire, of Milwaukee, Wisconsin, associated themselves in business for the purpose of developing and using the alleged inventions of the said Jenkins, and for that purpose the said Jenkins conveyed to the said T. S. Black, W. C. Black and A. G. Maguire, an interest in the said

alleged inventions and in all patents to be issued thereon, so that the said Ulysses S. Jenkins, T. S. Black, W. C. Black [fol. 61] and A. G. Maguire, on or before the 20th day of June, 1916, became jointly the owners of the said alleged inventions and of all patents to be issued thereon; and thereafter the said Ulysses S. Jenkins, T. S. Black, W. C. Black and A. G. Maguire, for the purpose of utilizing the said alleged inventions and patent rights, undertook the organization of the plaintiff corporation, and in the month of July, 1916, subscribed to the capital stock of the plaintiff corporation, and under date of September 25th, 1916, executed the Articles of Incorporation as required by the laws of the State of Wisconsin. The defendant denies the allegation "at which time the said Jenkins had made the inventions and discoveries described in the said letters patent and applied for the said letters patent." The defendant is without knowledge sufficient to constitute a belief as to the allegation "that while the United States Patent Office had not finally passed upon the inventions set up in the applications for said patents, nor finally determined just what claims would be allowed, yet it had become evident that if the said inventions were patentable, the said process and apparatus, and the patents thereon and any improvements thereto, would be of great value to persons engaged in the treatment of petroleum products." The defendant denies that the defendant, under its then name of Cudahy Refining Company, applied to the said Jenkins and his associates for an opportunity to investigate the said Jenkins process of treating petroleum; and further denies that the defendant stated that if Jenkins and his associates "would allow the said Cudahy Refining Company and its officers and representatives to have full knowledge of the said Jenkins process and apparatus, the applications for patents thereon then pending and its experimental still, the said Cudahy Refining Company would enter into a contract to purchase the right to use said process and the said patents in and about its treatment of petroleum products." The defendant further denies that it "stated that if the application for letters patent on said invention of Jenkins were granted the said Cudahy Refining Company would pay very large sums in royalties, and in the purchase of rights under said patents, amounting to many millions of dollars," and denies [fol. 62] "that the Cudahy Refining Company represented

that it was necessary to have in its possession the patent applications then pending of said Jenkins, the experimental still of the Jenkins Company, and also to have available the services of said Jenkins in order to adapt the said Jenkins processes and apparatus to its commercial needs and for use at its various plants and refineries"; and denies that "said Cudahy Refining Company represented that it would treat confidentially the disclosures of said patent applications, the experimental still, and the instructions of said Jenkins and his associates relative to the nature of the Jenkins apparatus and process and any improvements thereon." The defendant denies that the defendant "agreed that any improvements, whether of mechanical nature or in the process which may be developed as a result of the work of the Cudahy Refining Company's engineers, experts and other employes in familiarizing themselves with the Jenkins apparatus and processes, shall accrue to the Jenkins Petroleum Process Company, and shall become and remain the property of said Jenkins and his associates." The defendant denies that it entered into the certain contract set forth in said paragraph 5, and denies that the said instrument so set forth is a contract. The defendant admits that W. H. Isom was, on October 2, 1916, the president of the Cudahy Refining Company, but denies that the said W. H. Isom was duly empowered in law or in fact to sign the letter of October 2nd, 1916, set forth as aforesaid. It admits that Edward W. Isom was the son of W. H. Isom, and was an engineer in the employ of the said Cudahy Refining Company. The defendant has no knowledge sufficient to constitute a belief as to the remaining allegations in said paragraph 5 contained.

Sixth. In answer to paragraph 6 the defendant says that the plaintiff did in fact ship to the Coffeyville, Kansas, plant of the defendant a certain experimental still, but denies that the plaintiff loaned the defendant applications for patents thereon then pending, and denies that the experimental still so shipped to Coffeyville, Kansas, as aforesaid was "substantially the apparatus described in said letters patent, Exhibits Nos. 1 and 2," and alleges that the [fol. 63] said still was in an undeveloped, incomplete, inoperative, and experimental state and did not disclose anything of a patentable nature. The defendant admits that

the said Ulysses S. Jenkins visited the works of the defendant at Coffeyville, Kansas, but denies that the said Jenkins "there erected the said apparatus," and denies all other allegations in said paragraph 6 contained.

Seventh. The defendant denies the allegations of paragraph 7 of said Bill of Complaint.

Eighth. In answer to paragraph 8, the defendant denies that the said Edward W. Isom filed an application for letters patent of the United States on or about the 10th day of September, 1917, or at any time procured any letters patent of the United States embodying any ideas acquired from the said Jenkins or other officers and employes of plaintiff, by instructions or otherwise, and denies that the said application was filed "surreptitiously and without the knowledge of the plaintiff or its officers or representatives." The defendant admits that the said Isom procured Letters Patent No. 1,285,200, a copy of which is attached to the Bill of Complaint and marked Exhibit 3, and alleges that the invention set forth and disclosed thereby and claimed therein, was conceived by the said Isom prior to any transactions whatsoever between the said Isom and the said Jenkins and associates, or either of any of them.

Ninth. It denies the allegations of paragraph 9 in said Bill of Complaint contained.

Tenth. In answer to paragraph 10 defendant admits that it has a qualified possession of the said experimental apparatus, and denies all other allegations in said paragraph 10 contained.

Eleventh. The defendant denies the allegations of paragraph 11.

Twelfth. In answer to paragraph 12 the defendant denies that it owed or owes to the plaintiff any obligations by reason of the said letter of October 2nd, 1916, or otherwise, in respect to the Isom patent, a copy of which is attached to the Bill of Complaint and marked Exhibit 3, and denies all allegations in said paragraph 12 contained inconsitent with the foregoing.

[fol. 64] Thirteenth. In answer to paragraph 13 the dedefendant admits that the said Isom patent, Exhibit 3, to the

Bill was assigned to defendant by said Isom, but denies that the defendant owed any obligations to the plaintiff in respect to the Isom patent by reason of the said letter of October 2nd, 1916, or "out of any dealings between the plaintiff and the said defendant hereinbefore set forth." The defendant admits that it erected stills at some of its plants, but denies that it "turned over or attempted to turn over the control of the said apparatus, process and of the said method of 'cracking' petroleum products to the Sinclair Consolidated Oil Corporation." The defendant denies all other allegations in said paragraph 13 contained.

Fourteenth. Answering paragraph 14, the defendant denies the allegations that "the plaintiff, promptly after it had learned of the said action of the said Isom in obtaining the said letters patent, and in assigning the same to the defendant Refining Company, demanded of the said defendant Refining Company, that it assign to the plaintiff, and cause the said Isom to assign to said plaintiff, the said patent and all other processes, apparatus, and improvements discovered or invented by the defendant, their engineers, experts, employes or agents while in the possession of the said apparatus so invented by the said Jenkins, and devised or developed by the employes of the defendant Refining Company after it or they had received full information from the said apparatus, patent applications and the said Jenkins in the art, as hereinabove set forth." The defendant admits that it has not caused the assignment of any inventions or letters patent to the plaintiff, and denies that it is under any obligations so to do. The defendant further denies that it owes any obligations to the plaintiff in connection with any improvements and developments of the said Jenkins apparatus and process and denies that it or its employes ever made any improvements or developments thereof through any knowledge gained by them from the use of the said Jenkins apparatus and process, the patent applications thereon, or any instructions obtained from the said Jenkins. The defendant further denies all allegations of paragraph 14 inconsistent with the foregoing.

[fol. 65] Fifteenth. Defendant admits in answer to paragraph 15 that the oil company is a corporation of great size,

and carries on its business operations throughout the United States and other portions of the world; it denies that the oil company ever advertised that its business would be increased on account of the ownership by the defendant herein of the said Isom patent, and further denies all allegations of paragraph 15 inconsistent with the foregoing allegations.

Sixteenth. Defendant denies the allegations of paragraph 16 in said Bill of Complaint contained.

Seventeenth. In answer to paragraph 17 the defendant admits that any invention or process, if commercially advantageous, which enables a refinery to extract from crude oil or heavier petroleum products a large percentage of gasoline is a process of great value and denies all other allegations of paragraph 17.

Eighteenth. The defendant admits the allegations of paragraph 18.

Nineteenth. The defendant admits the allegations of paragraph 19.

Further answering the said bill of complaint and for a further defense thereto, the defendant alleges:

First. That in the year 1916 Ulysses S. Jenkins and W. C. Black, who then were and for sometime prior thereto had been employes of the defendant, submitted to the defendant an alleged process for the cracking of petroleum. That the experimental still to be used in the demonstration of this alleged process was shipped by the said Ulysses S. Jenkins and W. C. Black to the plant of the defendant at Coffeyville, Kansas, at which place it was attempted to be set up, under the personal direction and supervision of the said Jenkins, in the portion of said plant of the defendant established for investigation of cracking processes. That the said experimental still proved to be inoperative and incapable of demonstrating the alleged process, disclosed nothing of a patentable nature, and was abandoned by the [fol. 66] said Jenkins and his associates at the said plant of the defendant in Coffeyville, Kansas. The said Jenkins, who had gone to the said Coffeyville plant with the said apparatus, left the plant without the knowledge or advice of the defendant and never returned thereto. That because

of the inoperative character of said Jenkins experimental still the experts and engineers of defendant were never at any time able to and never did carry out experiments upon the alleged Jenkins improved process upon the petroleum products of defendant. That the said experimental still has, since the said time of abandonment by the said Jenkins and his associates, remained in the store house of the defendant at its said Coffeyville plant subject to the orders of the said Jenkins, and that since the said time of abandonment and departure from the said Coffeyville plant of the said Jenkins the said experimental still has never been investigated, studied, tested, experimented upon, or in any other manner dealt with by the defendant. That neither the defendant nor the said Edward W. Isom nor any of the officers, servants or employes of the defendant gained or acquired any new or useful knowledge or information relative to the art of cracking petroleum or apparatus to be used therefor, by reason of any disclosures made to them or either of them by the said Ulysses S. Jenkins or his associates, or by the exhibition to them or either of them of said experimental still, or otherwise.

Second. That the invention of the said Edward W. Isom described or intended to be described in Letters Patent of the United States No. 1,285,200, Exhibit 3 to the Bill of Complaint, did not result from any disclosure, knowledge or information imparted to the said Edward W. Isom or to any of the officers, or employes of the defendant by the said Jenkins, or, from the said experimental still, or otherwise, but resulted from the independent conception of the said Edward W. Isom, who was and is a skilled mechanical engineer working in the art of cracking petroleum, and whose conception of the said invention set forth in Letters Patent No. 1,285,200 occurred prior to October 2nd, 1916, and independent of any association, discussion or conference with the said Jenkins and his associates, or any ex-
[fol. 67] hibition by them to the said Isom of the said so-called Jenkins experimental still.

Third. That the said invention of Edward W. Isom set forth in Letters Patent of the United States, No. 1,285,-200, Exhibit 3 to the Bill of Complaint, is not the same, nor an improvement upon, in, or to, the said Jenkins experimental still or alleged Jenkins process; and is not the

same, nor an improvement upon, in or to either or any of the alleged inventions set forth in the Jenkins patents, Exhibits 1 and 2 to the Bill of Complaint, but on the contrary the said Isom invention is radically different from any of either of the aforesaid alleged Jenkins inventions; embodies a wholly different idea of means; operates upon different principles, and accomplishes different and highly successful results. That said Isom invention is not an improvement, whether of a mechanical nature, or in the process, developed as the result of the work of the engineers and experts of defendant in familiarizing themselves with the said Jenkins apparatus and alleged Jenkins process, but on the contrary said Isom invention is, as above set forth, a wholly new and distinct invention made by said Edward W. Isom, independently of, and prior to knowledge of, said Jenkins apparatus and said alleged Jenkins process, and based upon a wholly different principle and mode of operation.

Fourth. That the said experimental still of the said Jenkins and the so-called Jenkins process embodied nothing that was not then well known in this art, and open to public use, and that the Jenkins patents, Exhibits 1 and 2 to the Bill of Complaint, are void for want of invention and for inoperativeness.

Further answering the said bill of complaint and for a further defense thereto, the defendant alleges:

First. That the letter of October 2nd, 1916, the predicate of the plaintiff's cause of action herein, is not such a contract as a court of equity will specifically enforce in that—

[fol. 68] (a) It is not supported by a valuable consideration.

(b) It is uncertain, indefinite and ambiguous.

(c) It lacks mutuality.

(d) The plaintiff abandoned its obligations provided for in said letter.

(e) The letter of October 2nd, 1916, is a mere step in uncompleted negotiations and is a part of an otherwise incomplete transaction.

Second. Plaintiff herein is not entitled to specific performance of the alleged contract of October 2nd, 1916, because—

(a) It is guilty of laches.

(b) It abandoned its obligations in said letter contained.

(c) If there be a consideration in support of said alleged contract, the same has failed.

(d) The plaintiff was not in esse on October 2nd, 1916, and has no rights under the alleged contract of October 2nd, 1916.

(e) The Jenkins patents are void for lack of invention.

(f) The Jenkins experimental still was inoperative.

(g) The Isom patent was not in esse on October 2nd, 1916.

Further answering said bill of complaint and for a further and affirmative defense thereto and by way of counterclaim defendant alleges:

First. That the defendant is the owner of the entire right, title and interest in and to letters patent, of the United States No. 1,285,200, a copy of which is attached to the Bill of Complaint herein and marked Exhibit 3. Being so possessed of such entire right, title and interest the defendant has since on or about the first day of January, 1917, expended large sums of money in the development and installation of the process and apparatus described in said letters patent and is engaged in operations thereunder which constitute a great economic enterprise, and which contribute to the national prosperity and welfare of the people of these United States.

[fol. 69] Second. That the said letters patent embodying the aforesaid invention of Edward W. Isom comprehend and protect for defendant, in accordance with law, the invention of the said Edward W. Isom, conceived by the said Edward W. Isom independently of, and long prior to, any association, relation or connection between the said defendant, or Edward W. Isom, and the plaintiff and any of its officers or servants.

Third. That the claim of the plaintiff herein constitutes a cloud upon the title of the defendant in and to said letters patent No. 1,285,200, and is without foundation in fact or in law.

Wherefore defendant prays judgment as follows:

(a) That the Bill of Complaint be dismissed.

(b) That the defendant be decreed to be the owner of the entire right, title and interest in and to letters patent No. 1,285,200, freed from all claims and demands whatsoever at law or in equity of the plaintiff.

(c) That the defendant be hence dismissed with the costs and disbursements of this action.

(d) That the defendant be granted such further relief as to the Court may seem just and equitable.

Jones, Addington, Ames & Seibold, Verrill, Hale, Booth & Ives, Solicitors for Defendant. W. Clyde Jones, Keene H. Addington, R. T. Osborn, J. B. Macauley, Chas. D. Booth, of Counsel.

IN UNITED STATES DISTRICT COURT

PLAINTIFF'S REPLY TO COUNTERCLAIM—Filed August 31, 1921

The plaintiff, Jenkins Petroleum Process Company, in reply to the counter-claim filed by defendant herein says:

First. That with respect to the allegations contained in paragraph "First" of said counter-claim, it denies that the [fol. 70] defendant is the owner of the entire right, title and interest in and to Letters Patent of the United States No. 1,285,200, copy of which is attached to the bill of complaint herein and marked Exhibit "3," or any or either thereof, and says that in equity the entire right, title and interest to said Letters Patent belongs to the plaintiff, and that whatever right, title and interest to said Letters Patent may be vested in said defendant, the said defendant holds in trust for and to the use of said plaintiff. That the plaintiff has no knowledge as to the amount of money

expended by the defendant in either the development or installation of the process described in said Letters Patent, but admits that defendant is engaged in the operations thereunder which constitute a great economic enterprise and which contribute to the national prosperity and welfare of the people of the United States.

Second. That with respect to the allegations contained in paragraph "Second" of said counter-claim, the plaintiff says that the said Letters Patent therein referred to do not protect the defendant in the use of said Letters Patent, and further says that the said invention referred to in said Letters Patent was not conceived by the said Edward W. Eisom either independently of *of* long prior to any association, relation or connection between the said defendant or the said Edward W. Eisom and the plaintiff and any of its officers and servants, but on the contrary the plaintiff says that the facts with respect to said Letters Patent are as set forth in the original bill of complaint filed herein.

Third. That with respect to the allegations contained in paragraph "Third" of said counter-claim, this plaintiff says that its claim is a cloud upon the title of the defendant in and to said Letters Patent No. 1,285,200 only because in equity the defendant has no equitable right, title or interest therein, and whatever right, title and interest therein it may have, it holds in trust for this plaintiff.

Wherefore this plaintiff requests that the said counter-claim be dismissed with costs to this plaintiff.

[fol. 71] Jenkins Petroleum Process Company, by Parkinson & Lane, Mayers, Meyers, Austrian & Platt, Its Solicitors. Henry Russell Platt, Philip G. Clifford, of Counsel.

IN UNITED STATES DISTRICT COURT

DEFENDANT'S AMENDMENT TO ANSWER—Filed September 25, 1932

Now comes the defendant, pursuant to leave of Court first had and obtained, and amends the answer filed herein, as follows:

Add to paragraph Eighth, page 6, of the Answer:

And defendant further alleges that the apparatus described and claimed in the Isom patent No. 1,285,200, and the process followed by the defendant in the use of said apparatus, are wholly different in principle, construction and mode of operation from anything alleged to have been disclosed to the said Cudahy Refining Company, or its successor the Sinclair Refining Company, by the said Jenkins, or any officer of the plaintiff, and do not embody any ideas acquired, or information or instruction gained from said Jenkins, or any officer of the said plaintiff.

Paragraph Sixteen of the Answer, page 9, is amended by adding thereto:

And defendant further says that—

(a) The apparatus and cracking process covered by the Isom patent, and employed by the defendant in practice, are neither disclosed nor set forth in either of the Jenkins patents No. 1,226,526 and No. 1,321,749, Exhibits Nos. 1 and 2, respectively, but are radically different in construction, mode of operation and principle from anything disclosed in and by the said Jenkins Letters Patent, or contained in any alleged discoveries, inventions and processes of said [fol. 72] Jenkins now owned by the plaintiff and alleged to have been disclosed to the said Cudahy Refining Company or its successor the Sinclair Refining Company.

(b) That the apparatus and cracking process covered by the Isom patent, and employed by the defendant in practice, are neither improvements, modifications nor developments of any alleged discoveries, inventions and processes of said Jenkins, and were not devised and contrived by the defendant and its employes through the use of any apparatus of the said Jenkins, or the plaintiff, or any information, instructions or opportunities for investigation which were afforded to the defendant, either in pursuance of any understanding had prior to the 2nd day of October, 1916, or in pursuance of the terms of the alleged agreement of October 2nd, 1916, but, on the contrary, are improvements, modifications and developments of what was well known in the art long prior to any alleged invention and discovery of

the said Jenkins, said prior art being set forth in paragraph Sixteen of the Answer, sub-head (d) hereof.

(c) The alleged discoveries, inventions and processes of the said Jenkins, alleged to have been disclosed to defendant, or as set forth in the Jenkins patents, Exhibits Nos. 1 and 2, are not discoveries or inventions within the meaning of the Statutes of the United States, but consist of mere adaptations of what was well known in the art to the required uses, and involved only mere mechanical skill.

(d) Long prior to the time that the said Jenkins made the alleged discoveries, inventions and processes, as set forth in Exhibits Nos. 1 and 2, and long prior to the time that the said Jenkins, or any of his associates, is alleged to have made disclosure of Jenkins alleged discoveries and inventions to the defendant, or its predecessor Cudahy Refining Company, the same, or substantial and material parts thereof, were described and shown in United States and foreign Letters Patent and publications, enumerated in the following list; that more than two years prior to the [fol. 73] application date of the applications upon which said respective Letters Patent to Jenkins, Exhibits Nos. 1 and 2, were issued, the alleged discoveries, inventions and processes, or substantial and material parts thereof, were described and shown in the Letters Patent and publications set forth in the following list, which bear date more that two years prior to the filing dates of the applications for the respective Letters Patent to Jenkins; that prior to the alleged discoveries, inventions and processes, as set forth in Exhibits Nos. 1 and 2, the same, or substantial and material parts thereof, were invented by or known to the persons who became the patentees of the Letters Patent mentioned in the following list, at the respective places of residence of the patentees mentioned in said Letters Patent; said list above mentioned being as follows:

United States Patents

Number	Patentee	Date
28,448	L. Atwood	May 29, 1860
94,978	S. T. Russel	September 21, 1869
117,425	J. J. Johnston	July 25, 1871
125,633	P. H. Vander Weyde	April 9, 1872
132,403	J. Kidd	October 22, 1872

Number	Patentee	Date
136,008	E. Schalk	February 18, 1873
143,007	R. Gerner	September 23, 1873
154,772	S. Van Syckel	September 8, 1874
159,069	H. C. Bull	January 26, 1875
191,203	S. Van Syckel	May 22, 1877
195,652	H. C. Rose	September 25, 1877
282,239	J. Thomas	July 31, 1883
305,056	R. Dean	September 16, 1884
413,906	V. W. Blanchard	October 29, 1889
477,153	C. M. Pielsticker	June 14, 1892
553,841	C. W. Cooper	February 4, 1896
776,639	P. Blanc	December 6, 1904

[fol. 74]

976,975	J. H. Adams	November 29, 1910
1,084,080	G. H. Gillons	January 13, 1914
1,119,496	E. M. Clark	December 1, 1914
1,170,884	S. H. Edwards	February 8, 1916
1,175,910	W. A. Hall	March 14, 1916
1,200,281	Waxler & Sapp	October 3, 1916
1,203,312	W. M. Cross	October 31, 1916
1,224,485	G. Mersereau	May 1, 1917
1,226,990	W. M. Parker	May 22, 1917
1,229,171	H. A. Turnbull	June 5, 1917
1,235,777	Eldred & Mersereau	August 7, 1917
1,239,423	A. D. Smith	September 4, 1917
1,281,884	M. J. Trumble	October 15, 1918
1,282,906	G. Mersereau	October 29, 1918
1,324,075	A. D. Smith	December 9, 1919
1,327,263	G. H. Adams	January 6, 1920
1,335,767	F. E. Wellman	April 6, 1920
1,345,452	L. W. McOmber	July 6, 1920
1,388,514	E. M. Clark	August 23, 1921

British Patents

Number	Date	Patentee
64	Of 1872	J. A. Coffey
1424	Of 1915	E. M. Clark
6466	Of 1890	C. M. Pielsticker
7535	Of 1915	G. P. Lewis
7983	Of 1892	Paul Dvorkovitz
8336	Of 1909	H. A. Kittle

German Patents

Number	Date	Patentee
166,723	Of January 27, 1904	DeClercq's Patent Gesellschaft, etc.
271,003	Of July 5, 1912	Carl Semmler

Russian Patents

No. 4782	(175 of 1891)	Schuchow & Gawrilow of 1891

[fol. 75] (e) The alleged invention disclosed and claimed in each of the Letters Patent, Exhibits Nos. 1 and 2, is not substantially the same invention that is described and claimed in and comprehended by the application as originally filed in the United States Patent Office; that after the patentee of said Letters Patent had made oath to said original application, and after said application had been filed in the United States Patent Office, substantial and material additions thereto, and variations and changes therein were made, and new matter was unlawfully introduced in said application.

(f) The claims of each of the Jenkins Letters Patent in suit, if construed broadly enough to read upon defendant's system, are anticipated by the prior art patents, inventions and publications mentioned in paragraph 16 of the answer, sub-head (d) hereof.

(g) The said alleged improvement set forth in each of said Letters Patent to Jenkins, Exhibits Nos. 1 and 2, is impracticable and inoperative, and has made no impression on the commercial art, and the claims of said Letters Patent should, if valid at all, receive a narrow and restricted construction and be limited to the specific devices illustrated and claimed in each of said Letters Patent.

(h) The defendant has never advertised or installed, sold or used, in its commercial operations, any apparatus or process embodying any discovery, inventions or processes of said Jenkins, or covered by said Jenkins patents, Exhibits Nos. 1 and 2, or any improvements, modifications and developments thereof, either contrived or designed by defendant and its employes through the use of any Jenkins apparatus, or built in accordance with any information, in-

struction and opportunities for investigation afforded to the defendant or its predecessor by the said Jenkins, or any of the officers of the plaintiff, pursuant to any understanding with plaintiff or otherwise.

[fol. 76] (i) That the alleged Jenkins process and apparatus were in the experimental stage, unsuccessful and impracticable, and represented merely inchoate and undeveloped ideas, at the time of the alleged disclosure to the defendant or its predecessor Cudahy Refining Company, which ideas had not been at that time, and have not been since that time, and prior to the filing of the bill of complaint herein, practically or successfully reduced to practice or demonstrated.

(j) Defendant further shows that the second Jenkins Patent, No. 1,321,749, particularly claims 15 to 21 thereof, is void for the following reasons: Because said claims 15 to 21 constitute new matter and a departure from the original disclosure in the application; because said claims 15 to 21 constitute an unlawful expansion and broadening of the subject-matter and the claims of the application and patent; because no supplemental oath was filed in support of said claims 15 to 21.

(k) Defendant further shows that said second Jenkins patent No. 1,321,749, and particularly claims 15 to 21 thereof, is void for double patenting in view of the first Jenkins patent No. 1,226,526, constituting an unauthorized and illegal attempt to extend the monopoly of said first-mentioned Jenkins patent.

(l) Defendant further shows that the second Jenkins patent, and particularly claims 15 to 21 thereof, is void because of the circumstances and the conduct of the applicant surrounding the prosecution of the said application.

(m) Defendant further shows that under the facts and circumstances of this case plaintiff is estopped to assert the validity or infringement of claims 15 to 21 of the second Jenkins patent as against this defendant.

(n) Defendant further shows that plaintiff under the facts and circumstances of this case is estopped from asserting that defendant is not entitled to make and use stills

[fol. 77] of the so-called Isom type made under the Isom patent No. 1,285,200 in the manner and for the purpose said stills have been employed and are now employed by defendant.

Jones, Addington, Ames & Seibold, Solicitors and of Counsel for Defendant. Jones, Addington, Ames & Seibold, Solicitors for Defendant.

IN UNITED STATES DISTRICT COURT

FINAL DECREE ON ORIGINAL BILL No. 816—Filed August 13, 1926

This cause came on to be heard at a stated term, and was argued by counsel, and thereupon, upon consideration thereof, it was

Ordered, adjudged, and decreed as follows:

That the bill of complaint herein be, and the same hereby is, dismissed, with costs to be taxed by the Clerk of this Court, and the defendant have execution for such costs.

Dated August 13th, 1926.

John A. Peters, United States District Court Judge.

Approved as to form.

Philip G. Clifford, Solicitor for Plaintiff.

MANDATE CIRCUIT COURT OF APPEALS—Filed July 31, 1929

UNITED STATES OF AMERICA, ss:

[SEAL.]

The President of the United States of America to the Honorable Judge of the District Court of the United States for the District of Maine, Greeting:

Whereas lately in the District Court of the United States for the District of Maine, before you, in a cause numbered [fol. 78] and entitled No. 816, Equity, Jenkins Petroleum Process Company, Plaintiff, v. Sinclair Refining Company, Defendant, on August 13, 1926, the following Final Decree was entered:

This cause came on to be heard at a stated term, and was argued by counsel, and thereupon, upon consideration thereof, it was

Ordered, adjudged and decreed as follows:

That the bill of complaint herein be, and same hereby is, dismissed with costs to be taxed by the Clerk of this Court, and that the defendant have execution for such costs.

Dated August 13th, 1926.

John A. Peters, United States District Court Judge.

And whereas said Jenkins Petroleum Process Company, plaintiff appealed from said decree to this United States Circuit Court of Appeals for the First Circuit, as by inspection of the transcript of the record in said cause of the said District Court, which was brought into the United States Circuit Court of Appeals for the First Circuit, by virtue of the aforesaid appeal agreeably to the act of Congress, in such cases made and provided, fully and at large appears.

And whereas, in the present term of October, in the year of our Lord one thousand nine hundred and twenty-eight, the said cause came on to be heard before the said Circuit Court of Appeals, on the said transcript of record, and was argued by counsel:

On consideration whereof, it is now, to wit, July 30, 1929, here ordered, adjudged and decreed as follows: The decree of the District Court is affirmed so far as it denies specific performance of the contract of October 2, 1916. But so far as it dismisses the bill as to other issues involved, it is reversed; and as to those issues the case is remanded to the District Court with directions to transfer it to the law side of the court, where within thirty days from the date [fol. 79] of this order the plaintiff may have leave to amend its bill of complaint into an action at law for breach of the contract of October 2, 1916. No costs are to be allowed to either party.

You, therefore, are hereby commanded that such further proceedings be had in said cause in conformity with the aforesaid decree of this court, as according to right and

justice, and the laws of the United States, ought to be had, the said appeal notwithstanding.

Witness the Honorable W. H. Taft, Chief Justice of the United States, the thirtieth day of July, in the year of our Lord one thousand nine hundred and twenty-nine.

Arthur I. Charron, Clerk of the United States Circuit Court of Appeals for the First Circuit, by Roger A. Stinchfield, Deputy Clerk.

In United States District Court, District of Maine, Southern Division

In Equity. No. 816

Jenkins Petroleum Process Company, Plaintiff,

vs.

Sinclair Refining Company, Defendant

Order Transferring Case to Law Side of Court—Filed August 29, 1929

Pursuant to the mandate of the Circuit Court of Appeals in the above entitled cause under date of July 30th, 1929, it is hereby ordered, adjudged and decreed as follows: [fol. 80] That the said cause be transferred to the law side of the Court, with leave to the said Plaintiff, within thirty (30) days from the date of said mandate, to amend its bill of Complaint into an action at law for breach of the contract of October 2nd, 1916.

Dated at Portland, this 28th day of August, 1929.

Clarence Hale, United States District Judge.

In United States District Court

No. 939. Equity

Plaintiff's Objections to Items in Defendant's Præcipe—Filed June 18, 1932

Comes now the Jenkins Petroleum Process Company, the plaintiff and appellant in the above entitled suit, and ob-

jects to the inclusion in the transcript of the record on the appeal by the plaintiff to the United States Circuit Court of Appeals for the First Circuit, of each and every item included in the defendant's præcipe which was filed herein on May 13, 1932, for the reason and on the ground that each of said items is a pleading in another suit, to-wit: Jenkins Petroleum Process Company v. Sinclair Refining Company, in Equity No. 816, in the District Court of the United States for the District of Maine; that no one of said pleadings is or ever has been a part of the record in this suit, and that each of said items is irrelevant and immaterial to the consideration and determination of any issue to be submitted on this appeal to the United States Circuit Court of Appeals for the First Circuit.

June 20, 1932.

Philip G. Clifford, Solicitor for the Plaintiff. C. Stanley Thompson, Rush H. Williamson, Frederick Schafer, Washington, D. C., of Counsel.

[fol. 81] IN UNITED STATES DISTRICT COURT

MOTION TO OMIT ITEMS IN DEFENDANT'S PRÆCIPE—Filed June 18, 1932

Comes now the Jenkins Petroleum Process Company, the plaintiff and appellant in the above entitled suit, and respectfully moves that the court enter an Order directing the Clerk of this court to omit from the transcript of the record on the appeal by the plaintiff to the United States Circuit Court of Appeals for the First Circuit, each and every item included in the defendant's præcipe which was filed herein on May 13, 1932, for the reason and on the ground that each of said items is a pleading in another suit, to-wit: Jenkins Petroleum Process Company v. Sinclaim Refining Company, in Equity No. 816, in the District Court of the United States for the District of Maine; that no one of said pleadings is or ever has been a part of the record in this suit, and that each of said items is irrelevant and immaterial to the consideration and determination of any issue to be submitted on this appeal to the United States Circuit Court of Appeals for the First Circuit.

And the plaintiff above named further respectfully moves that in the event the foregoing motion be not granted, the court enter an order that the items included in the defendant's præcipe herein be printed in the transcript of the record on the appeal of this suit to the United States Circuit Court of Appeals for the First Circuit at the expense of the defendant.

June 20, 1932.

Philip G. Clifford, Solicitor for the Plaintiff. C. Stanley Thompson, Rush H. Williamson, Frederick Schafer, Washington, D. C., of Counsel.

[fol. 82] IN UNITED STATES DISTRICT COURT

ORDER OVERRULING MOTION TO EXCLUDE ITEMS IN DEFENDANT'S PRÆCIPE—Filed June 21, 1932

This cause came on to be heard on the plaintiff's motion to omit from the transcript of the record the items included in the defendant's præcipe, and on the plaintiff's objections to the inclusion in the transcript of the record on the appeal by the plaintiff to the United States Circuit Court of Appeals for the First Circuit, of each and every item included in the defendant's præcipe, and upon consideration thereof it is hereby

Ordered, adjudged and decreed as follows:

That the items included in the defendant's præcipe be printed in the transcript of the record on the appeal by the plaintiff to the United States Circuit Court of Appeals for the First Circuit.

June 21st, 1932.

John A. Peters, United States District Judge.

[fols. 83 & 84] Clerk's certificate to foregoing transcript omitted in printing.

[fol. 85] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT, OCTOBER TERM, 1932

No. 2722

JENKINS PETROLEUM PROCESS COMPANY, Plaintiff, Appellant,

v.

SINCLAIR REFINING COMPANY, Defendant, Appellee

Appeal from the District Court of the United States for the District of Maine

Before Bingham, Wilson, and Morton, JJ.

OPINION OF THE COURT—January 3, 1933

MORTON, J.:

This is a bill for discovery in aid of an action at law brought by the Jenkins Company against the Sinclair Company. The District Court sustained a motion to dismiss and dismissed the bill; and the plaintiff appealed. The first question is whether on its face the bill states a case for discovery.

The first point is whether bills for discovery still lie in the Federal Courts, or whether they have been superseded by Rev. Stats., sec. 724. In Carpenter v. Winn, 221 U. S. 533 at 539-540, it is said, "The statute may therefore be well regarded as affording a short and quick way of obtaining documentary evidence for use in the trial of an action at law, leaving the parties to a bill of discovery if they desire the production before the trial for the purpose of preparing for it." See too Pressed Steel Car Co. v. Union [fol. 86] Pac. R. Co., 240 Fed. 135, s. c. 241 Fed. 964; and Colgate v. Compagnie Francaise, 23 Fed. 82, an able opinion by Judge Wallace. It devolves upon the party filing such a bill to show that there is real need of it, and that the desired evidence cannot be obtained in a practically useful way under section 724. If these requirements are met such a bill is still maintainable. The decision in Carpenter v. Winn, that under section 724 the production of evidence could not be ordered in advance of trial, rather enlarges the field of bills for discovery. It is highly desir-

able as Judge Wallace suggests that such evidence be sifted out before the jury trial.

The next point is whether such bills may be brought to obtain evidence relevant only on the amount of damages. In Munger v. Firestone Co., 261 Fed. 921 (C. C. A. 2), and Loose v. Bellows, 266 F. R. 81 (C. C. A. 2), it was decided that bills for discovery could be used only to obtain facts bearing on the "issues", i. e., on questions of liability, and not to obtain evidence of damage. The opposite result was reached in Guyot v. Hilton, 32 Fed. 743, cited with approval in Carpenter v. Winn, supra, and in Colgate v. Compagnie Francaise, supra, where apparently no such distinction between liability and damages was suggested.

In the state courts, while the question is generally affected by statutory provisions, discovery has been allowed with respect to damages. McKinnon-Young Co. v. Stockton, 55 Fla. 708; Wells v. Holman, 115 So. Carolina 443 (106 S. E. 224); Sherwood Bros. Inc. v. Yellow Cab Co., 283 Pa. 488 (129 At. 563). In the South Carolina case, supra, the statute permitted discovery of evidence "relating to the *merits* (italics mine) of the action or defense". In the Pennsylvania case, supra, the statute permitted "discovery of facts material to a just determination of the *issues.*" (Italics mine.) Both these statutes opened the way to the distinction between liability and damages on which the Munger and Loose cases, supra, turned; and in neither was the distinction recognized.

In England also discovery is now regulated by statutes. Irrespective of them, however, the right to it does not [fol. 87] appear to have been limited by the technical "issues" presented in the action at law, but to have been allowed as to facts bearing on any "question" presented in that action. The present case is fully covered by Saunders v. Jones [1877] L. R. 7 Ch. 435. The text writers are to the same effect. "As all the points in the cause will come on for trial simultaneously, the right of the plaintiff to discovery will of necessity attach upon them all." "Points in the Law of Discovery" by Wigram, 1 "Am. Ed. p. 80." "Where the questions of liability generally, and of damages, *were severable* (italics mine), discovery which was material to the latter question only, would not be given before the hearing." "The Law and Practice of Discovery" by Peile, page 29. See too "Principles and Prac-

tice of Discovery" by Bray, Chapter II; and see Peile, supra, Chapter IV, discussing this question and citing cases where discovery as to damages was allowed, and 11 Halsbury Laws of England, page 52.

There is a practical distinction as above noted between cases in which the plaintiff will be compelled to present all his evidence, both on liability and on damages, at the same hearing, and cases in which the assessment of damages can be postponed until the question of liability has been determined. The English law and the weight of American decisions appear to be that in cases of the former sort discovery will be ordered on damages as well as on liability.

We think this much the sounder view. Damages are an important element in litigation; they are the reason why an action is brought. There is no good reason why discovery should not be ordered as to damages, except that if the defendant wins on liability the evidence on damages will go for nothing. This is always true of evidence of damages in actions at law; it always goes for nothing if the defendant prevails. But this has never been thought a sufficient reason for splitting a jury trial; and it does not seem to us a sufficient reason for refusing discovery. We are not impressed by the distinction—for which no authority is cited—between "issues" and questions of fact, made in the Munger case.

[fol. 88] The next point is whether the evidence sought to be obtained is relevant on the issues presented in the action at law. In substance the declaration therein alleges that the Sinclair Company was under a contractual obligation to cause to be assigned to the Jenkins Company a certain application for a patent made by one Isom employed by the Sinclair Company; that the Sinclair Company did not cause the application to be so assigned; that instead the application was assigned by Isom to the Sinclair Company, to which company the patent granted on the application was issued; that the Sinclair Company used the invention in a large way with great success in its business.

The plaintiff's damages are the loss which it sustained by being deprived of the application and the resulting patent. The Sinclair Company contends that the grant of the patent and the commercial use of the invention are not

admissible on the value of the application and are therefore irrelevant on the question of damages.

An application for a patent, being a thing sui generis, has no "market" value in the strict use of that term. Standard Oil Co. v. So. Pacific Co., 268 U. S. 146; United States Frumentum Co. v. Lauhoff, 216 Fed. 610 (C. C. A. 6). Its money value may be estimated from the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art. These facts, and other relevant circumstances, may be supplemented by opinion evidence of value, as in the case of real estate. Montana Ry. Co. v. Warren, 137 U. S. 348.

We do not think that a court, valuing in judicial proceedings an invention described in an application for a patent, is obliged to shut its eyes to the result of the application, nor to the commercial utility of the invention as shown by the use of it in the art or industry to which it relates, but may take evidence on those points up to the time of trial. Williston on Contracts, page 2394.

Such evidence is not for the purpose of showing increase in value or new uses—which as is well settled with regard to the valuation of land taken by eminent domain would not [fol. 89] be admissible—but to show the inherent character and place of the invention in question. It is analogous to evidence of successful commercial use of a patent on the question of invention, and of the actual results of a physical injury for which damages are sought. Hetzel v. B. & O. R. R. Co., 169 U. S. 26; Cincinnati S. L. Co. v. Western S. L. Co., 152 U. S. 200. Of course commercial success of an invention may be due, less to its own merit, than to the ability with which it was exploited The weight to be given such evidence rests in the discretion of the jury or trier of the fact. We can not say that no evidence of that sort ought to be received in the action at law to which this bill of discovery relates, and that therefore discovery of it ought not to be ordered.

The profits if any which the Sinclair Company made by using the Isom invention have no relevancy on the question of damages, and no discovery should be ordered in respect to them. The plaintiff is not suing as the equitable owner of the patent. Our previous decision precludes it

from that position. Jenkins Co. v. Sinclair Co., 32 Fed. (2d) 247 (C. C. A. 1).

Nor is the precise extent to which the defendant made use of the Isom invention material on the plaintiff's case in chief. Non constat that the defendant would have used the invention as it did if the plaintiff had owned the patent. The plaintiff is entitled to show the general facts about the Isom invention, not specific instances of profitable use by this person or that. The probative value of such evidence is outweighed by the extent and complexity of the collateral inquiries which it involves. If, however, the defendant should deny the utility and commercial success of the invention, evidence of the defendant's use of it might be highly significant; and under those circumstances the plaintiff would be entitled to discovery of them. The bill should be retained for this purpose. If such a situation shall develop at the trial, prompt discovery can then be ordered.

On the facts stated in the bill we think the plaintiff has made out a case warranting discovery along the lines above indicated.

Some question is raised as to the point of time at which the defendant's breach of contract occurred. The correct [fol. 90] date will depend on the facts proved at the trial. If there was no repudiation of the contract of which notice was given to the plaintiff, the contract may be regarded as broken when the defendant finally disabled itself from performing it. The defendant, after having taken the assignment of the application from Isom, could have reassigned it to the plaintiff with the same effect as if originally so assigned by Isom. The contract would have been complied with by such an assignment. The interposition of the mesne assignment would not affect the plaintiff's rights; and it was open to the defendant to carry out the contract in that way if it saw fit to do so. It was, therefore, within the power of the defendant to perform the contract at any time until the application had become merged into the patent. While the defendant could still have transferred the patent after it had been issued, the transfer of a patent is substantially different from the assignment of the application for it—the value of the patent can be greatly affected for better or worse by the way in which the application is handled in the patent office. On the facts alleged the con-

tract appears to have been broken on the date when the application became merged into the patent.

We think the questions presented were properly raised by the motion to dismiss. It may be that the defendant has weighty defenses on the facts. That circumstance, if it be true, has nothing to do with the present questions. For the present purposes we take the case as stated in the plaintiff's bill.

It follows that the judgment dismissing the bill must be reversed and the case remanded to the District Court for further proceedings in accordance with this opinion.

The decree of the District Court is reversed and the case is remanded to that court for further proceedings not inconsistent with this opinion; the appellant recovers costs of appeal.

IN UNITED STATES CIRCUIT COURT OF APPEALS

DISSENTING OPINION

WILSON, J. (dissenting):

I am unable to agree that the bill of discovery should be sustained in this case when the only purpose is to procure evidence on the question of damages in the action at law; and, further, since it is not clear that it is necessary to [fol. 91] resort to it in order to procure the evidence held to be admissible in the opinion.

The only cases in which the issue of whether a bill of discovery was proper to obtain evidence solely on the question of damages was clearly before the court are: Munger v. Firestone Tire & Rubber Co., 261 Fed. 921, and Loose et al. v. Bellows Falls Pulp Plaster Co. et al., 266 Fed. 81. In each of these cases the Circuit Court of Appeals for the Second Circuit refused to sustain such a bill, and in the Munger case a writ of certiorari was denied by the Supreme Court, 252 U. S. 582.

The Munger case was a patent infringement case, and not grounded on a breach of contract as is the present case; but if a bill of discovery would ever lie to obtain evidence solely on the question of damages, we think it would lie in case of an action at law to recover damages for infringement of a patent.

The case of Loose et al. v. Bellows Falls Pulp Plaster Co. et al., supra, was an action at law on a breach of contract or license, in which case the court said, at page 83: "Equity will not aid law to ascertain damages by entertaining a bill for discovery," citing Munger v. Firestone Tire Co., supra. "A fortiori will it not retain a bill when the discovery desired has no other purpose than the liquidation of damages."

In the case of Bradford v. Indiana Harbor Belt R. Co., 300 Fed. 78, 83, discovery was refused on the ground that it was not shown that the plaintiff could not obtain all necessary information under Sec. 724, R. S., the court saying: "It is not to be presumed that the District Court would deprive him (plaintiff) of reasonable opportunity to examine them before the trial was concluded."

In the case of Pressed Steel Car Co. v. Union Pac. R. Co., 240 Fed. 135, the court sustained the bill, but clearly on the ground that it was essential in order to determine the liability of the defendant to ascertain whether the improvements protected by the plaintiff's patents were embodied in any of the cars constructed by or for the defendant, and also to what extent, if any, the defendant had to let bids for the construction of cars less than ten dollars lower than the plaintiff's bid for the same cars. The plaintiff had eleven [fol. 92] patents and the defendant 14,000 cars. That the evidence essential to determine liability also bears on the question of damages is no objection to sustaining such a bill.

The earlier cases of Colgate v. Compagnie Francaise, etc., 23 Fed. 82, and Guyot v. Hilton, 32 Fed. 743, do not hold that a bill for discovery will lie to obtain evidence of damages alone in an action at law. The complainant in the former case based its complaint, in part only, on the ground that discovery was necessary on the question of damages. The court evidently granted it as essential to enable the plaintiff to establish liability, and did not hold that a bill for discovery would lie solely to enable a plaintiff at law to prove damages. Neither does it appear that it was an issue in Guyot v. Hilton, supra. Carpenter v. Winn, 221 U. S. 533, goes no farther than to hold that a bill for discovery has not been abolished by the enactment of Section 724, R. S., and may still be invoked in proper cases; but

since the enactment of Section 724, R. S., it should only be sustained in exceptional cases. Pressed Steel Car Co. v. Union Pac. R. Co., supra.

While there may be cases in the several states holding to the contrary under state statutes or codes, and statements of text writers based on such cases, the only authoritative federal decisions we have on the precise question here involved hold that a bill of discovery will not lie to obtain evidence solely on the question of damages. It was a clear-cut issue in the Munger case, and the Supreme Court refused to disturb the ruling of the Circuit Court of Appeals.

Assuming that in exceptional cases a bill for discovery might lie in aid of proof of damages alone, where complicated questions would arise and require accounting, as in case of an action at law for infringement of a patent, I think there is not sufficient ground for sustaining such a bill in this case to obtain the evidence held to be admissible as to damages suffered by the plaintiff by reason of the breach of its contract with the defendant to convey the Isom patent to the plaintiff.

Certainly the power of the plaintiff to summon as witnesses the officers or employees of the defendant having [fol. 93] knowledge of the number of cracking stills operated by the defendant, with all plans and blue prints of the same, would give the plaintiff all the evidence held in the opinion to be admissible in this case, and required for opinion evidence as to the value of the application for a patent, or of the patent itself. Inasmuch as the plaintiff in this case cannot recover damages on the basis of royalties or profits gained by the use of the patent in issue, the need for preliminary examination of evidence admissible under the opinion of the court is not clear. At least, it does not appear that this is an "exceptional case" where justice cannot be attained under an action for breach of contract by invoking Section 724, or the right of the plaintiff to summon the officers and employees of the defendant as witnesses. United States v. Bitter Root Development Co., 200 U. S. 451, 475, 479.

Surely the officers managing the affairs of the plaintiff corporation, and especially Ulysses Jenkins, who acted in

an advisory capacity throughout the operation of the experimental still loaned to the defendant by the plaintiff corporation, which is engaged in the same kind of business as that of the defendant, must have knowledge of the nature of the Isom improvements from their expert knowledge of the oil cracking processes and from the application for the patent, and the patent itself, which are a part of the declaration in the action at law, and of the advance in the prior art, which was thereby made. Neither the extent of the use by the defendant nor the profits gained from the use of the improvements, it is held in the opinion, are admissible on the question of damages. The opinion also holds that the plaintiff is only entitled to show general facts about the Isom patent, not specific instances of its use. I think with its power to summon the patentee, Edward Isom, and any other officer or employee of the defendant, and to compel the production of any plans or blue prints or books of the defendant under Section 724, R. S., the plaintiff can prove its damages if it can show a breach of its contract. The burden is not on the defendant to satisfy the court that discovery "ought not to be ordered," but on the plaintiff clearly to show that it ought to be invoked. [fol. 94] I think the plaintiff has failed to sustain that burden in this case.

Unless it appears from the bill itself that the declaration in the action at law discloses an "exceptional case," and a proper one for invoking this extraordinary remedy, I find no authority for retaining the bill until the defendant files its pleadings in the law action, or until occasion for discovery shall develop in the trial of the action at law.

[fol. 95] On October 4, 1932, this case came on to be heard, and was fully heard by the court, Honorable George H. Bingham, Honorable Scott Wilson and Honorable James M. Morton, Jr., Circuit Judges, sitting.

Thereafter, to wit, on the third day of January, A. D. 1933, the opinion of the court (page 85) and a dissenting opinion (page 90) were filed, and the following Final Decree was entered:

IN UNITED STATES CIRCUIT COURT OF APPEALS

FINAL DECREE—January 3, 1933

This cause came on to be heard October 4, 1932, upon the transcript of record of the District Court of the United States for the District of Maine, and was argued by counsel.

Upon consideration whereof, It is now, to wit, January 3, 1933, here ordered, adjudged and decreed as follows: The decree of the District Court is reversed and the case is remanded to that court for further proceedings not inconsistent with the opinion passed down this day; the appellant recovers costs of appeal.

By the Court.

Arthur I. Charron, Clerk.

IN UNITED STATES CIRCUIT COURT OF APPEALS

MOTION FOR EXTENSION OF TIME FOR FILING PETITION FOR REHEARING—Filed February 8, 1933

To the Honorable the United States Court of Appeals for the First Circuit:

The defendant-appellee, Sinclair Refining Company, by its solicitor undersigned, respectfully moves the court that it be permitted until February 11, 1933, to file a petition for rehearing in the above-entitled cause.

Sinclair Refining Company, by Frank E. Barrows,
Its Solicitor.

[fol. 96] IN UNITED STATES CIRCUIT COURT OF APPEALS

ORDER DENYING MOTION FOR EXTENSION OF TIME—February 8, 1933

It is ordered that appellee's motion to extend time for filing a petition for rehearing be, and the same hereby is, denied.

By the Court.

Arthur I. Charron, Clerk.

MEMORANDUM RE STAY OF MANDATE

Thereafter, to wit, on February 11, 1933, mandate was stayed until further order of court.

Clerk's certificate to foregoing transcript omitted in printing.

[fol. 97] SUPREME COURT OF THE UNITED STATES

ORDER ALLOWING CERTIORARI—Filed April 10, 1933

The petition herein for a writ of certiorari to the United States Circuit Court of Appeals for the First Circuit is granted. And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.

Endorsed on cover: File No. 37,449. U. S. Circuit Court of Appeals, First Circuit. Term No. 752. Sinclair Refining Company, petitioner, vs. Jenkins Petroleum Process Company. Petition for a writ of certiorari and exhibit thereto. Filed March 3, 1933. File No. 37,449.

FILED
MAR 3 1933
CHARLES ELMORE CROPLEY

FILE COPY

IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No. 752

SINCLAIR REFINING COMPANY,
Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT

and

BRIEF IN SUPPORT THEREOF.

DEAN S. EDMONDS,
FRANK E. BARROWS,
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No.

SINCLAIR REFINING COMPANY,

Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI.

To the Honorable, the Chief Justice and the Associate Justices of the Supreme Court of the United States:

Your petitioner, Sinclair Refining Company, prays that a writ of certiorari issue to review a decision and decree of the Court of Appeals for the First Circuit, entered January 3, 1933 (R., 85, 95). The decision and decree which petitioner seeks to have reviewed reversed an order of the District Court of Maine dismissing a bill in equity brought against petitioner by respondent for discovery in aid of an action at law (R., 34).

A certified transcript of the record in the case, including the proceedings in the Circuit Court of Appeals, is furnished herewith in compliance with Rule 38 of the rules of this court.

Summary Statement of the Matter Involved.

The action at law in aid of which the bill for discovery was filed is an action pending in the District Court of Maine whereby the plaintiff, Jenkins Petroleum Process Company, respondent herein, seeks to recover from the defendant, Sinclair Refining Company, petitioner herein, damages claimed to have been sustained as the result of an alleged breach of contract (R., 13).*

The suit was originally one in equity to compel specific performance of the contract. The District Court held that a case for specific performance had not been made out (32 F. [2d], 247) and dismissed the bill (R., 77). The Court of Appeals for the First Circuit affirmed the decree so far as it denied specific performance (32 F. [2d], 252), but, by its mandate (R., 77) directed the District Court to transfer the case to the law side of the court and to permit plaintiff to amend its bill into a declaration at law for breach of the contract. The declaration in the action at law was filed under the authority of that mandate.

The declaration alleges, in substance, that Sinclair Company was under a contractual obligation to cause to be assigned to Jenkins Company a certain patent application made by one Isom employed by Sinclair Company, together with the invention it was intended to protect; that Sinclair Company did not cause the application or the invenion to be so assigned; that instead, the application was caused to be assigned to Sinclair Company, to which Company the patent granted on the application was issued November 19, 1918; and that Jenkins Company sustained the damages claimed as the result of the breach so described (R., 13).

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*The contract was in the form of a letter written by the plaintiff to the defendant, and is set out in full as an appendix to the brief accompanying this petition.

Defendant, by plea, joined issue upon all the foregoing, and pleaded special defenses, including failure of performance by plaintiff, misrepresentation by plaintiff, lack of consideration, and that the Isom invention was independently made prior to knowledge of the Jenkins invention and not an improvement under the contract (Rec., pp. 15-23).

The bill for discovery has for its sole purpose the discovery in advance of trial of information alleged to be relevant only to the amount of damages recoverable in the action at law. The information sought relates exclusively to the fact, nature and extent of the use of the Isom invention *after* the grant of the patent and during a period of ten years or more *subsequent* to the alleged breach of contract.*

In the bill for discovery, it is alleged that for a period of ten years or more subsequent to November 19, 1919, Sinclair Company carried on an extensive business in the cracking of petroleum oils, operating many stills embodying the characteristic features of the Isom invention, and producing a large quantity of gasoline and other petroleum products with the invention as the basis of its production (R., 6). It is also alleged that without discovery in advance of trial of the number of stills embodying Isom's invention used by Sinclair Company during the period named, the exact nature of such stills, as shown by drawings, tracings, and blueprints in the possession of Sinclair Company, the number of barrels of gasoline and other products resulting from cracking processes involving the use of such stills, and the amount of petroleum oil charged into the stills, Jenkins

*The District Court held the alleged breach, if any there was, occurred September 10, 1917, when the application was filed and assigned to Sinclair Company by Isom (R., 29). The Court of Appeals held that the alleged breach occurred not later than November 19, 1918, the date upon which the patent granted on the application issued to Sinclair Company (R., 90, 24).

Company cannot prove its damages at the trial of the action at law with any degree of accuracy and completeness (R., 6-7). Interrogatories designed to call forth the desired information are annexed to the bill (R., 8-11).

With respect to part of the discovery sought, viz., whether Sinclair Company used stills embodying the Isom invention, the number of such stills, and their exact nature, as shown by drawings, etc., in possession of Sinclair Company, nothing is alleged in the bill to show that such information cannot be made practically available to Jenkins Company by invoking the existing legal remedies. There is only the assertion of the bare conclusion that Jenkins Company cannot prove its damages without discovery in advance of trial (R., 6, 7, 8).

With respect to the number of barrels of gasoline and other products resulting from processes involving the use of Isom stills and the amount of petroleum oil charged into such stills, it is alleged that the desired information is contained in books, records and papers in the possession of Sinclair Company and cannot be made practically available to Jenkins Company without discovery in advance of trial, for the reason that the pertinent entries and notations are so numerous and complicated and cover such large production over so long a time, as to render it impossible for Jenkins Company, its attorneys and other representatives, to make the necessary examination thereof during the trial if production of the books, records and papers at the trial were compelled by subpoena duces tecum (R., 7-8).

On motion of the defendant (R., 26), the District Court dismissed the bill (R., 34). One of the grounds assigned for the order of dismissal was that a bill in equity for discovery cannot be maintained for the sole purpose of discovering evidence which bears only upon the amount of damages recoverable by a plaintiff in an action at law (R., 32). The District Court also held

that the amount of damages recoverable by the plaintiff in the action at law must be measured by the value of the invention and patent application at the date of the alleged breach determined in the light of such relevant facts and circumstances as then existed (R., 29); that the allegations of the declaration in the action at law show that the alleged breach, if any there was, occurred September 10, 1917 (R., 29); and that the evidence sought to be discovered, since it relates to facts having no existence until after that date, is not pertinent to the amount of damage recoverable, and would be inadmissible if offered at the trial (R., 33). The objection that the Jenkins Company has a clear, plain and adequate remedy at law was not passed upon by the District Court.

On appeal, the order of the District Court was reversed by the Circuit Court of Appeals for the First Circuit which held, by a divided court, that a bill for discovery may be maintained to discover evidence relevant only to the amount of damages recoverable in an action at law (R., 86, 87); that the damages recoverable by the plaintiff in the action at law are to be measured by the money value of the application (R., 88); that a court, in determining the money value of the unpatented invention and the patent application at the date of the alleged breach of contract, may consider the commercial utility of the invention as shown by its use in the art or industry to which it relates during the period of ten or more years subsequent to the grant of the patent and to the date of the alleged breach, and may take evidence on these points up to the time of trial for the purpose of showing the inherent character and place of the invention (R., 88, 89); that the use of Isom stills by Sinclair Company during the period of ten years or more following the grant of the patent and subsequent to the date of the alleged breach of contract is therefore relevant to the value of the Isom application at the date of the alleged breach, and discovery thereof in advance

of trial may be ordered (R., 89); that the profits which Sinclair Company made by use of the Isom invention have no relevancy on the question of damages (R., 89); and, that, while evidence showing the precise extent to which Sinclair Company made use of the invention during the period of ten or more years following the grant of the patent and subsequent to the alleged breach of contract is not material on plaintiff's case in chief and no discovery of such evidence should be ordered in advance of trial, Jenkins Company would be entitled to discovery of such evidence if Sinclair Company, at the trial, should deny the utility and commercial success of the invention, and the bill should be retained so that prompt discovery could be ordered should such a situation develop (R., 89).

The Court of Appeals also held that the contract upon which the action at law is founded is to be regarded as broken only when Sinclair Company finally disabled itself from performing it; hence, upon the allegations of the bill, the breach of contract relied upon occurred November 19, 1918, the date upon which the application ceased to be an application and became merged in the patent issued to Sinclair Company on the application (R., 90, 24).

Reasons Relied on for Allowance of Writ.

The discretionary power of this Court to grant a writ of certiorari is invoked upon the following grounds:

1. The decision of the Court of Appeals for the First Circuit is in direct conflict with the decisions of the Court of Appeals for the Second Circuit in *Munger* vs. *Firestone Tire & Rubber Co.*, 261 Fed., 921 (*certiorari denied* 252 U. S., 582), and *Loose* vs. *Bellows Falls Pulp Plaster Co.*, 266 Fed., 81, both holding that a bill for

discovery cannot be maintained to discover evidence relevant only to the amount of damages recoverable in an action at law.

2. The decision of the Court of Appeals for the First Circuit is in direct conflict with the decision of the Court of Appeals for the Seventh Circuit in *Bradford* vs. *Indiana Harbor Belt R. Co.*, 300 Fed., 78, holding that no necessity for discovery exists where the desired evidence requires no preliminary sifting out or examination before trial and is readily obtainable by summoning officers or employees of the defendant to testify as witnesses at the trial and by giving notice to produce the pertinent books and papers at the trial under Section 724 of the Revised Statutes (28 U. S. Code, Sec. 636).

3. The decision of the Court of Appeals for the First Circuit that, in determining the money value of an unpatented invention and the patent application therefor, a court may consider the commercial utility of the invention as shown by its use during a period subsequent to the grant of a patent on the application and to the date of the alleged breach of contract, and may take evidence of such use up to the time of trial for the purpose of showing the inherent character and place of the invention, has decided an important question of general law in a way probably untenable and in conflict with the weight of authority.

4. The Court of Appeals for the First Circuit in deciding that the contract upon which the action at law is founded is to be regarded as broken only when the Sinclair Company finally disabled itself from performing it, in the absence of proof of repudiation brought home to Jenkins Company at an earlier date, has de-

cided an important question of general law in a way probably untenable and in conflict with the weight of authority.

Wherefore, your petitioner respectfully prays that a writ of certiorari be issued under the seal of this court directed to the United States Court of Appeals for the First Circuit, to the end that this cause may be reviewed and determined by this court; that the decree of said Circuit Court of Appeals be reversed and the decree of the United States District Court for the District of Maine be affirmed; and that petitioner may be granted such other and further relief as may seem just and proper.

DEAN S. EDMONDS,
FRANK E. BARROWS,
Counsel for Petitioner.

Dated: New York, N. Y.,
March 2, 1933.

IN THE

SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1932.

No.

SINCLAIR REFINING COMPANY,

Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,

Respondent.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

Opinions of the Courts Below.

The opinion of the District Court for the District of Maine, by District Judge John A. Peters, was filed February 18, 1932. It appears at page 26 of the record and is reported in 56 F. (2d), 272. The opinion of the Circuit Court of Appeals for the First Circuit (Circuit Judges Bingham, Wilson and Morton), written by Judge Morton, was filed January 3, 1933, and appears at page 85 of the record. It has not yet been reported. Judge Wilson, dissenting from the decision of the court, wrote a dissenting opinion which appears at page 90 of the record.

Jurisdiction.

The jurisdiction of this court is invoked under section 240(a) of the Judicial Code as amended by the act of February 13, 1925, c. 229 (28 U. S. Code, Sec. 347).

The decree of the Circuit Court of Appeals for the First Circuit which petitioner seeks to have reviewed was entered January 3, 1933 (R., 95).

Statement of the Case.

The essential facts of the case are stated in the accompanying petition for a writ of certiorari (*ante*, pp. 2-6), and, in the interest of brevity are not repeated here.

Specification of Errors.

The errors which the petitioner will urge, if the writ of certiorari is issued are that the Court of Appeals for the First Circuit erred:

1. In holding that a bill in equity for discovery may be maintained to discover evidence relevant only to the amount of damages recoverable in an action of law.

2. In holding that discovery in advance of trial of the action at law may be ordered of the use of Isom stills by defendant during a period of ten or more years following the grant of the patent and subsequent to the alleged breach of contract.

3. In holding that the bill for discovery ought to be retained in order that discovery may be ordered during the trial of the action at law of the extent to which Sinclair Company made use of the Isom invention

during the period of ten or more years following the grant of the patent and subsequent to the alleged breach of contract should an issue arise at the trial to which such evidence would be relevant.

4. In holding that the commercial utility of the invention as shown by the use of it in the art or industry to which it relates during the period of ten years or more following the grant of the patent and subsequent to the date of the alleged breach of contract may be considered in determining the money value, at the date of the breach, of the application and the unpatented invention it describes.

5. In not holding that the damages recoverable by the plaintiff in the action at law are to be measured by the money value of the application and the unpatented invention it describes, at the date of the alleged breach of contract, determined in the light of such relevant facts and circumstances as then existed.

6. In holding that the contract upon which the action at law is founded is to be regarded as breached only when Sinclair Company finally disabled itself from performing it, in the absence of proof of repudiation brought home to Jenkins Company at an earlier date.

7. In not holding that the contract upon which the action at law is founded is to be regarded as breached when the duty of performance, if any there was, became immediately due and was not rendered.

8. In reversing the decree of the District Court dismissing the bill for discovery.

9. In failing to affirm the decree of the District Court dismissing the bill for discovery.

Summary of Argument.

The points of argument will follow the reasons relied upon for allowance of the writ of certiorari and will be discussed in the order set out in the petition (*ante*, pp. 6-7).

ARGUMENT.

I.

The decision of the Court of Appeals for the First Circuit is in direct conflict with decisions of the Court of Appeals for the Second Circuit on the question whether a bill for discovery will lie to discover evidence relevant only to the amount of damages recoverable in an action at law.

The court below expressly recognized that its decision is in conflict with the decisions of the Court of Appeals for the Second Circuit in *Munger* vs. *Firestone Tire & Rubber Co.*, 261 Fed., 921 (certiorari denied 252 U. S., 582), and *Loose* vs. *Bellows Falls Pulp Plaster Co.*, 266 Fed., 81. Judge Morton, writing the opinion of the court, said:

> "The next point is whether such bills may be brought to obtain evidence relevant only on the amount of damages. In *Munger* vs. *Firestone Co.*, 261 Fed., 921 (C. C. A., 2), and *Loose* vs. *Bellows*, 266 F. R., 81 (C. C. A., 2), it was decided that bills for discovery could be used only to obtain facts bearing on the 'issues,' i. e., on questions of liability, and not to obtain evidence of damage" (R., 86).

Judge Morton then called attention to cases decided in lower federal courts, in state courts, and in England,

upon which the court rested its belief that the English law and the weight of American decisions supported the opposite view, and concluded his discussion of the question by saying:

> "We are not impressed by the distinction,—for which no authority is cited,—between *'issues'* and questions of fact, made in the Munger case" (R., 87).

Judge Wilson, in his dissenting opinion, said:

> "The only cases in which the issue of whether a bill for discovery was proper to obtain evidence solely on the question of damages was clearly before the court are: *Munger* vs. *Firestone Tire & Rubber Co.*, 261 Fed., 921, and *Loose, et al.*, vs. *Bellows Falls Pulp Plaster Co., et al.*, 266 Fed., 81. In each of these cases the Circuit Court of Appeals for the Second Circuit refused to sustain such a bill, and in the Munger case a writ of certiorari was denied by the Supreme Court, 252 U. S., 582" (R., 91).
>
> * * * * * *
>
> "While there may be cases in the several states holding to the contrary under state statutes or codes, and statements of text writers based on such cases, the only authoritative federal decisions we have on the precise question here involved hold that a bill of discovery will not lie to obtain evidence solely on the question of damages. It was a clear-cut issue in the Munger case, and the Supreme Court refused to disturb the ruling of the Circuit Court of Appeals" (R., 92).

In the *Munger* case, the Court of Appeals for the Second Circuit, holding that discovery will not lie to

discover evidence bearing only on the question of damages, dismissed a bill for discovery in aid of an action at law for patent infringement by which it was sought to require the defendant to disclose in advance of trial the number of sales made of the alleged infringing article and the profits made thereon.

In the *Loose* case, the Court of Appeals for the Second Circuit held that a bill for discovery would not lie to require a licensee under a patent license agreement to disclose the quantity of licensed material made and sold by it. The court said, at page 83: "Equity will not aid law to ascertain damages by entertaining a bill for discovery," citing the Munger case, "A fortiori will it not retain a bill when the discovery desired has no other purpose than the liquidation of damages."

The question upon which the conflict exists is, as petitioner believes, an important one, which has not been, but should be passed upon by this court.

II.

The decision of the Court of Appeals for the First Circuit is in direct conflict with a decision of the Court of Appeals for the Seventh Circuit on the question of what constitutes a sufficient showing of necessity for discovery in aid of an action at law.

The Court of Appeals for the Seventh Circuit, in *Bradford* vs. *Indiana Harbor Belt R. Co.*, 300 Fed., 78, sustained the action of the District Court in dismissing on motion a bill in equity for discovery in aid of an action at law for damages sustained as the result of defendant's conduct in operating cars and locomotives over tracks and land belonging to plaintiff. The bill for discovery alleged that the extent defendant used the property and the amount it charged and received there-

for was a material issue in the action at law, that defendant kept books and had papers and documents showing these facts, and that complainant had no means of ascertaining such facts except through answers to the interrogatories appended to the bill. The Court of Appeals based its affirmance of the action of the lower court upon the ground that "If the ascertainment of these facts is simple, and does not involve complex and voluminous accounts, it may well be that the ordinary processes would be sufficient for appellant, and that the extraordinary relief by discovery in equity was entirely unnecessary and properly denied," and that, in any event, "it is not to be presumed that the district court would deprive him of reasonable opportunity to examine them before the trial was concluded," if defendant required production at the trial of the books and papers showing the facts under section 724 of the Revised Statutes.

The general principles upon which the Court of Appeals for the Seventh Circuit based its decision, are well understood and accord with the dicta in *Ex parte Boyd*, 105 U. S., 647; *Brown* vs. *Swann*, 10 Peters, 497; *United States* vs. *Bitter Root Development Co.*, 200 U. S., 451; and *Carpenter* vs. *Winn*, 221 U. S., 533, 539.

The court below expressly recognized these general principles, using the following language (R., 86):

> "It devolves upon the party filing such a bill to show that there is real need of it, and that the desired evidence cannot be obtained in a practically useful way under section 724."

The conflict between the decision of the court below and the decision of the Court of Appeals for the Seventh Circuit in the *Bradford* case arises out of a difference of opinion as to when the requirement of a showing of necessity for discovery has been met.

The Court of Appeals for the Seventh Circuit in the *Bradford* case held that such necessity was not shown where the desired evidence requires no preliminary sifting out or examination before trial to make it fully available and is readily obtainable by summoning officers or employees of the defendant to testify as witnesses at the trial and by giving notice to defendant under section 724 of the Revised Statutes to produce the pertinent books and papers at the trial.

In the instant case, the only evidence which the court below held could be discovered in advance of trial of the action at law relates to the use of Isom stills by the defendant. There are no allegations in the bill showing that examination of such evidence in advance of trial is necessary or that it is not readily obtainable by resort to the means available at law.

The allegations of the bill with respect to such evidence amount to no more than an assertion of the bare conclusion that complainant cannot prove its damages without discovery in advance of trial (R., 6, 7, 8).

And, as pointed out by Judge Wilson in his dissenting opinion, there is nothing in the nature or character of the evidence which requires discovery in advance of trial to render it available and useful to complainant. On this point Judge Wilson said (R., 92, 93):

> "Certainly the power of the plaintiff to summon as witnesses the officers or employees of the defendant having knowledge of the number of cracking stills operated by the defendant, with all plans and blueprints of the same, would give the plaintiff all the evidence held in the opinion to be admissible in this case, and required for opinion evidence as to the value of the application for a patent, or of the patent itself. Inasmuch as the plaintiff in this case

cannot recover damages on the basis of royalties or profits gained by the use of the patent in issue, the need for preliminary examination of evidence admissible under the opinion of the court is not clear."

With respect to the number of barrels of gasoline produced by defendant using Isom stills and the amount of gasoline charged into them, the bill does allege that it would be impossible for complainant to make the necessary examination of the numerous entries relating thereto if production of the pertinent books and records at the trial were compelled by subpoena duces tecum (R., 7, 8). But the court below held that discovery of this evidence could not be ordered in advance of trial for the reason that it is not relevant to any issue now existing (R., 89), merely directing that the bill should be retained so that discovery could be ordered at the trial if an issue should be created during the trial to which the evidence would be relevant. Not only is retention of the bill for that purpose without precedent, as Judge Wilson pointed out in his dissenting opinion (R., 94), but it has no foundation in necessity, since officers and employees of defendant may be summoned as witnesses at the trial, and under the express provisions of section 724 of the Revised Statutes (28 U. S. Code, Sec. 636) production at the trial of books and records in possession of a party, which contain pertinent evidence, may be compelled "in cases and under circumstances where they might be compelled to produce the same by the ordinary rules of proceeding in chancery."

The question upon which the conflict of opinion exists is, as petitioner believes, an important one, frequently arising in Federal courts,* with respect to which differ-

*See *Galion Iron Works Co.* vs. *Ohio Corrugated Culvert Co.*, 244 Fed., 427, C. C. A., 6; *Pressed Steel Car Co.* vs. *Union Pac. R. Co.*, 240 Fed., 135, D. C., S. D., N. Y.; *Childs* vs. *Missouri, K. & T. Ry. Co.*, 221 Fed., 219, and *Safford* vs. *Ensign Mfg. Co.*, 120 Fed., 480.

ent opinions have been held regarding the expressed views of this court (see *Galion Iron Wks. Co.* vs. *Ohio Corrugated Culvert Co.*, 244 Fed., 427, 429).

III.

The Court of Appeals for the First Circuit, in deciding that a court, in determining the money value of the unpatented invention and the patent application at the date of the alleged breach of contract, may consider the commercial utility of the invention as shown by its use during a period subsequent to the grant of the patent and to the date of the alleged breach, has decided an important question of general law in a way probably untenable and in conflict with the weight of authority.

Specific performance of the contract upon which the action at law is founded having been denied and the plaintiff remitted to an action at law for damages occasioned by the alleged breach (see statement of facts, *ante*, p. 2), and the breach assigned being the failure of defendant to cause the patent application and the unpatented invention to be assigned to plaintiff (see statement of facts, *ante*, p. 2), it follows that the compensation plaintiff may recover is limited to the money value of the patent application and the unpatented invention at the date of the alleged breach (*Kennedy* vs. *Hazelton*, 128 U. S., 667, 672; *Shepherd* vs. *Hampton*, 3 Wheat., 200, 204; *Hopkins* vs. *Lee*, 6 Wheat., 109, 118; *Effinger* vs. *Kennedy*, 115 U. S., 566, 575; *Clark* vs. *Belt*, 223 Fed., 573, 578, C. C. A., 8).

The court below did not question this fundamental proposition, but, following an assertion that "an application for a patent, being a thing *sui generis*, has no 'market' value in the strict use of that term," held

that a court, in determining the money value of the invention described in the application, may take into consideration facts which had no existence until years after the patent issued on the application and years after the alleged breach of contract occurred. This decision, as petitioner believes, is untenable and in conflict with the weight of authority.

The value of an invention, or a patent, or a patent application and the unpatented invention which it described, is such that it may be of great value at one time and utterly worthless at another time (*Alpha Portland Cement Co.* vs. *Schratweiser,* 221 Fed., 258, 259). The frequency with which a discovery is superseded so that it becomes of little or no value, as well as the frequency with which discoveries that had little or no value when made become exceedingly valuable as the result of some unforeseen development, is well understood.

The value of any such property depends entirely upon how matters stood at the date with respect to which it is valued, and a court, in determining the value thereof as of any given date, should solve the question in the light of facts and conditions as they then existed, and not in the light of facts and circumstances which came into existence years later. This is not to disregard the future, but the future must be forecast in the light of things presently known, and carry the hazard of uncertainty which attends all prophecies with respect to future value, rather than the certainty which evidence of subsequent events would permit.

The value which the Isom application and the invention which it described had in the light of facts known or foreseeable at the date the application was made, or the date the patent was granted, or the date upon which the alleged breach of contract occurred is one thing, the value which they had in the light of utilization of

the invention by Sinclair Company during the period of ten years or more thereafter is another thing, and between the two there is no demonstrable relation. The Isom invention relates to the art of oil cracking, and the changing commercial conditions which have existed in that art during the ten year period to which the bill for discovery relates will be evident to this court from its consideration of *U. S.* vs. *Standard Oil Co.*, 283 U. S., 183.

The fact that a patent application has no "market" value in the strict use of that term, as asserted by the court below, does not open the door to evidence of subsequent commercial utility. Unpatented inventions and patent applications, like mining "prospects" (*Montana R. Co.* vs. *Warren,* 137 U. S., 348, 352) are the constant subject of sale, and, while "market" value cannot be established by reference to contemporaneous sales of like property, it may be established in the same way as the market value of other property (*Standard Oil Co.* vs. *So. Pac. Co.,* 268 U. S., 146; *Brooks-Scanlon Corp.* vs. *United States,* 265 U. S., 106), as the sum which, considering all the circumstances, in all probability could have been obtained for the property on the date of the breach as the result of fair negotiations between an owner willing to sell and a purchaser willing to buy.

What was known about the commercial utility of the patent in 1930, for example, does not show the conditions which would have influenced a willing purchaser and a willing buyer in 1918. To show the inherent character and place of the invention at the date of the breach by evidence of subsequent use of it in the art or industry is to invest the fictitious willing buyer and willing seller with wisdom after the event.

The decision of the court below on the point under consideration is, as petitioner believes, in direct conflict with the weight of authority as represented by cases to which the attention of the court is now directed.

In *Pabst Brewing Co.* vs. *E. Clemens Horst Co.*, 229 Fed., 913 (C. C. A., 9), the Court said:

> "It must be self-evident that a sale of hops made on July 9th is no evidence whatever of market value six or eight months previously, especially in view of the testimony on the part of the Horst Company that the price of hops declined rapidly after November 4th, the date of the cancellation of the contract" (p. 919).

In *Mandelbaum* vs. *Goodyear*, 6 F. (2d), 818, 824, evidence was offered in the trial court of the financial condition of the company in October, 1920, to show the falsity of statements as to the financial condition of the Company in April, 1920, some six months prior. This evidence was excluded by the trial court and its exclusion approved by the Court of Appeals for the Eighth Circuit as furnishing no safe guide for the jury in determining the condition of the company at the earlier date.

In that case also the trial court refused to admit quotations of Goodyear stock for a period from December 11, 1920 to October 31, 1921, as furnishing no index of the value of that stock at the time plaintiff purchased it in July, 1920, and this ruling was also approved by the Court of Appeals for the Eighth Circuit.

In *Pitman* vs. *Ball*, 140 Mo. App., 389, 124 S. W., 1082, it was held that the actual value of a mining lease was not shown by evidence of what a subsequent lease on the same tract brought on a sale four or five years later. The evidence offered was objected to on the ground that the time was too remote from the time of the organization of the corporation, and had no tendency to show the actual value of the property at the time the corporation

was organized. The objection was sustained by the trial court, and affirmed by the Court of Appeals.

In *State* vs. *Buckley*, 98 Wash., 379, 167 Pac., 1087, the Supreme Court of Washington held that a government price list of supplies issued in 1913 was not proper evidence of the value of supplies furnished prior to that time.

In *Burgin* vs. *Marx*, 158 Ala., 633, 48 So., 348, it was held by the Supreme Court of Alabama that the value of property at the time of seizure, which the plaintiff was entitled to recover, could not be shown by evidence of efforts to sell the property several months after the seizure, and the evidence was held inadmissible.

In *Myers* vs. *Bender*, 46 Mont., 497, 129 Pac., 330, it was held by the Supreme Court of Montana that it was error for the trial court to admit evidence to show the value of land at a date subsequent to the date of the breach of contract.

In *People* vs. *Barker*, 121 App. Div., 661, 106 N. Y. S., 336, affirmed 200 N. Y., 509, 93 N. E., 378, it was held that actual results of a lease ascertained years after the date of the lease were not competent evidence of the value of the lease at its date. The Court said:

> "* * * nor do I think the actual results ascertained years after this date were competent evidence as to the value of the property on the second Monday of January, 1897. The question had to be determined as to the actual value of the interest of the lessee company in these leases at that date, and whether the value was greater or less several years afterwards has no relation as to the value of the leases at the date at which it was to be ascertained and assessed against this relator."

In *Bowden* vs. *Achor*, 95 Ga., 243, 22 S. E., 254, action was brought to set aside a deed on the ground of in-

adequacy of the purchase price. It was held that evidence of the value of the land at the time of the trial, which occurred years later, was irrelevant.

In *Sequin* vs. *Plano*, 295 Pac., 179 (1931), the Supreme Court of Washington said in discussing the evidence of value of a mining lease:

> "The actual value of a mining lease is not shown by evidence of what a subsequent lease of the same tract brought at a sale four or five years later."

The War Claims Arbiter, functioning under the Settlement of War Claims Act of 1928, in his "Administrative Decision No. 2," dealing with the bases of fair compensation for patents and patent rights seized during the World War, set forth the rules by which he would be guided as follows (pp. 54, 55):

> "BASIC RULE"
>
> "The phrase 'as nearly as may be determined' as used in the Act is but a recognition of the fact that mathematical accuracy cannot be approximated in fixing fair compensation. But, considering all of the facts in each case, the aim of the Arbiter will be to arrive at an amount as nearly as may be determined, which, in all probability, would have resulted from fair negotiation between a citizen of the United States who was willing to sell or license his patent, on the one part, and the Government of the United States which desired to buy the patent or to acquire the grant of a license, on the other part.
>
> "In arriving at this amount the Arbiter will weigh all of the relevant facts as developed in each case with a view to determining (1) what a reasonably prudent and experienced person, duly authorized to

represent the Government, would have been willing to pay at the pertinent time, in the light of all of the *then* existing relevant facts and circumstances, and (2) what a reasonably prudent citizen of the United States would at that time have been willing to accept for the patent, license, or use in question in the light of the *then* existing relevant facts and circumstances, and (3) the amount which would have been arrived at as the result of such bargaining.

"In reaching this amount neither the value to the owner of the patent nor the value to the United States alone will control. Both will be considered; and it will be assumed that all relevant facts and circumstances *as they existed at the pertinent time* would have been duly considered and weighed by both the willing seller and the willing buyer, and that as a result they would have arrived at an amount which one would have been willing to take and the other would have been willing to give." (Emphasis ours.)

"Time of Estimating Value"

"The patent sold, the license granted, or the uncompensated use, must all be valued as of the time of the sale, the time of the grant, or the time of the use as the case may be. Values may vary—may increase or decrease—with changed conditions and the lapse of time, but fair compensation will be determined as of the time of the sale, license, or use."

Petitioner believes the rules stated by the Arbiter accord with reason and the weight of authority, and express the principles which should control compensation, if any, recoverable in the action at law in aid of which respondent's bill was filed.

IV.

The decision of the Court of Appeals for the First Circuit that the contract upon which the action at law is founded is to be regarded as breached only when Sinclair Company finally disabled itself from performing it, in the absence of repudiation brought home to Jenkins Company at an earlier date, is probably untenable and in conflict with the weight of authority.

It is elementary that a breach of contract occurs "when performance has become immediately due and has not been rendered," and that a duty of immediate performance exists "when all things have happened and the necessary time has elapsed to make present performance by a promisor obligatory." *American Law Institute Restatement of the Law of Contracts, Section 250, Comment c.* The decision of the court below, therefore, that the contract upon which the action at law is founded is to be regarded as breached only when Sinclair Company finally disabled itself from performing it, in the absence of proof of repudiation brought home to Jenkins Company at an earlier date (R., 90), is a decision that under the contract, no duty of immediate performance by Sinclair Company of the obligation to cause the application and the invention it described to be assigned to Jenkins Company arose until demand for such assignment was made by Jenkins Company. This decision, petitioner believes, is untenable and in conflict with the weight of authority.

The contract (see Appendix, *infra*) provides that improvements of the kind contemplated "*shall accrue*" to Jenkins Company, and that Sinclair Company shall cause its employees, so far as it is able to do so, to execute applications for patents thereon *at the expense of Jenkins Company*, and to assign said applications, together with the improvements they are intended to pro-

tect, to Jenkins Company. The "*necessity*" for these provisions is explained in the contract by saying that such improvements "*belong by right to their employer,*" *and under the circumstances, to Jenkins Company.*

So far as possible, Jenkins Company was to be placed, with respect to the improvements and applications mentioned, in the same position as if the inventor were its own employee hired to make the invention. The improvements were to "accrue" to Jenkins Company, not upon demand, but when made. Its right to the property was to attach the moment it came into existence. *Standard Parts Co.* vs. *Peck*, 264 U. S., 52; *Gill* vs. *United States*, 160 U. S., 426; *Solomons* vs. *United States*, 137 U. S., 342, and *Conway* vs. *White*, 9 F. (2d), 863, C. C. A., 2.

One important right incident to ownership of a patent application is the right to control the prosecution of the application in the Patent Office. The assignee of an application may be represented by an attorney of his own selection and is entitled to hold correspondence with the Patent Office to the exclusion of the inventor (Patent Office Rules of Practice, Nos. 5, 17 and 20).

Another right incident to the ownership of an unpatented invention and patent application is the right to grant licenses and make contracts relating to the use of such inventions, and such contracts have been repeatedly upheld and enforced. *Eclipse Bicycle Co.* vs. *Farrow*, 199 U. S., 582; *Brush Electric Co.* vs. *California Electric Light Co.*, 52 Fed., 945, C. C. A., 9. The patent statutes provide specifically for the assignment of patent applications and the granting of patents thereon to the assignees. (Rev. Statutes, Sec. 4895, 35 U. S. Code, Sec. 44.) This is a separate statute from the one relating to the assignment of issued patents and interests therein. (Rev. Statutes, Sec. 4898, 35 U. S. Code, Sec. 47.)

To hold that no breach of contract occurred, absent repudiation, until the application matured into a patent

is to hold that Jenkins Company had no right to control the prosecution of the application or to exercise the other important rights incident to its ownership during the pendency of the application in the Patent Office, even though, under the contract, the application and the invention it described belonged to it.

Such a holding is contrary to the weight of authority and is a dangerous rule to govern the date of breach of a contract to assign patent applications and unpatented inventions, and the date as of which the value of an invention and application must be determined, affecting as it does the rights in unpatented inventions and patent applications, the rights of employers and employees under employment contracts, and rights under contracts to assign inventions covered by patent applications. This holding, we submit is one that should be reviewed, and the correct rule established by this court.

CONCLUSION.

It is earnestly urged, therefore, that the petition be granted.

Respectfully submitted,

DEAN S. EDMONDS,
FRANK E. BARROWS,
Counsel for Petitioner.

APPENDIX.

"CHICAGO, ILLINOIS,
October 2nd, 1916.

Cudahy Refining Company,
Chicago, Illinois.

Gentlemen:

Pursuant to our conversations and conferences relative to the Jenkins Process of treating petroleum, it is understood that we are to loan you our experimental still to be shipped to Coffeyville, Kansas, so that your experts and engineers may have apparatus immediately available upon which to carry out experiments upon the Jenkins improved process upon your petroleum products.

It is further understood that Mr. Ulysses S. Jenkins, of Chicago, will go to Coffeyville, Kansas, to install the still and will remain in an advisory capacity throughout the entire course of experimental work carried on by your experts, Mr. Jenkins' salary being $150.00 per month, and all expenses, including railroad expenses incurred by him in making trips to Chicago, rendered necessary by said experimental work, this to be paid by you.

It is further definitely understood and agreed between us that any improvements, whether of a mechanical nature, or in the process, which may be developed as the result of the work of your engineers and experts in familiarizing themselves with the Jenkins apparatus and process, shall accrue to the Jenkins Petroleum Process Company, and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and to assign said applications, to-

gether with the improvements they are intended to protect, to the Jenkins Petroleum Process Company. This provision is of course rendered necessary by the fact that in the development of a process of this character, and particularly in its application to particular oils, many short cuts and improvements necessarily are developed by the experts entrusted with the carrying out of the process, which belong by right to their employer, and under the circumstances here involved, of course, to the Jenkins Petroleum Process Company, inasmuch as they are loaning you not only their experimental still, but also the services of Mr. Jenkins, the inventor himself.

It is further understood that all expenses in connection with the transportation of the still and incidental expenses shall be paid by you, and that as soon as your engineers and experts have carried on sufficient work with this still to thoroughly familiarize themselves with the process and discover the best conditions under which to apply the process to your petroleum products, the still will be returned in good condition to us, and that Mr. Jenkins' salary will continue from the time the still is first shipped to Coffeyville, until such time as it is returned.

Yours very truly,

JENKINS PETROLEUM PROCESS COMPANY
By A. G. MAGUIRE,
President.

This letter and agreement accepted
and approved.

CUDAHY REFINING COMPANY,
By W. H. ISOM, *Pres.*"

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CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No. 752.

SINCLAIR REFINING COMPANY,
Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF FOR PETITIONER.

DEAN S. EDMONDS,
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IN THE

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OCTOBER TERM, 1932.

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SINCLAIR REFINING COMPANY,
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JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF OF PETITIONER.

INTRODUCTORY.

This case is here on writ of *certiorari* to the Court of Appeals for the First Circuit to review a decree of that Court (R., 91) reversing a decree of the District Court of Maine (R., 40) dismissing a bill in equity brought by Jenkins Petroleum Process Company, respondent, against Sinclair Refining Company, petitioner, for discovery in aid of an action at law.

OPINIONS OF THE COURTS BELOW.

The opinion of the District Court for the District of Maine, by District Judge John A. Peters, was filed Feb-

ruary 18, 1932. It appears at page 33 of the record and is reported in 56 F. (2d), 272.

The opinion of the Circuit Court of Appeals for the First Circuit (Circuit Judges Bingham, Wilson and Morton), by Judge Morton, was filed January 3, 1933. It appears at page 82 of the record and is reported in 62 F. (2d), 663. Judge Wilson, dissenting from the decision of the Court, wrote a dissenting opinion which appears at page 87 of the record and in 62 F. (2d), 663, at page 666.

JURISDICTION.

The jurisdiction of this Court is invoked under Section 240(a) of the Judicial Code as amended by the act of February 13, 1925, c. 229 (28 U. S. Code, Sec. 347).

The decree of the Court of Appeals for the First Circuit was entered January 3, 1933. The petition for a writ of certiorari was filed March 3, 1933, and was granted April 10, 1933.

STATEMENT OF THE CASE.

The Action at Law.

The action at law in aid of which the bill for discovery was filed is an action pending in the District Court of Maine, by which the plaintiff, Jenkins Petroleum Process Company, respondent herein, seeks to recover from the defendant, Sinclair Refining Company, petitioner herein, damages claimed to have been sustained as the result of an alleged breach of contract.

The contract is in the form of a letter written by Jenkins Company to Sinclair Company's predecessor, Cudahy Refining Company. The letter is set out in full at pages 14 and 15 of the record and is reproduced in the appendix to this brief (*infra*, p. 61).

The History of the Action at Law.

The suit was originally brought by the filing of a bill in equity for specific performance of the contract. The bill (R., 46), filed January 21, 1921, alleged, in substance, that Sinclair Company, by virtue of the contract, was under an obligation to cause to be assigned to complainant a certain patent application made by one Edward H. Isom, an employee of Sinclair Company, on September, 1917, together with the invention it was intended to protect; that Sinclair Company did not cause the application or the invention to be so assigned; that instead, the application was caused to be assigned to Sinclair Company; and that the application resulted in the issuance to Sinclair Company, on November 19, 1918, of U. S. Patent No. 1,285,200. The prayer of the bill was for a decree directing Sinclair Company to assign and transfer the Isom patent, with all rights thereunder, and any and all patents in other countries, or applications therefor, relating to the invention, to Jenkins Company, requiring Sinclair Company to account for all profits made by the use of the invention described in the Isom patent and for all damages sustained by Jenkins Company as a result of the alleged breach of contract, and enjoining Sinclair Company from using the invention described in the Isom patent.

Sinclair Company, by answer, joined issue on all the material allegations of the bill, and set up a number of special defenses, including failure of performance by complainant, misrepresentation, lack of consideration, and the fact that the Isom invention was made prior to and independently of knowledge of the Jenkins invention and was not an "improvement" within the meaning of the contract sued upon.

The equity suit came on for hearing in the District Court, and following ar extended trial, lasting three weeks, a decree was entered dismissing the bill (R., 77).

An opinion was filed (32 F. [2d], 247) in which the trial judge (Judge Peters) set forth the reasons which moved him to dismiss the bill. Concluding his opinion, Judge Peters said:

> "I am of the opinion from the evidence that Isom conceived the principal features of his invention before he heard of Jenkins and that nothing material was added to his knowledge of the art after he investigated the Jenkins process. The features of the Isom patent in the nature of improvements could well be the outgrowth of patents and processes shown to have been within the knowledge of Isom before any of the Jenkins process was disclosed.
>
> To permit the plaintiff to acquire the Isom patent upon the showing made here, not to mention the disparity of consideration which must be apparent, would be inequitable and unjust, and I cannot think that it should be permitted.
>
> Several other defenses have been urged by industrious counsel which I have not found it necessary to consider.
>
> The result is that the bill must be dismissed, with costs."

On appeal from the decree of the District Court dismissing the bill, the Court of Appeals for the First Circuit affirmed the decree so far as it denied specific performance (32 F. [2d], 252), but, by its mandate (R., 77-78) remanded the case to the District Court with directions to transfer it to the law side of the Court and permit complainant to amend its bill into a declaration at law for breach of the contract. Under the authority of that mandate, Jenkins Company filed the declaration in the action at law to which the present bill for discovery is auxiliary.

Pleadings in the Action at Law.

The allegations of the declaration are similar to the allegations of the original bill in equity. They set forth that Sinclair Company was obligated by the contract to cause the Isom patent application, together with the invention it was intended to protect, to be assigned to Jenkins Company; that Sinclair Company breached that obligation; and that as a result Jenkins Company sustained the damages claimed (R., 10).

The defendant, by plea of the general issue and notice of special defenses, raised issues similar to those it had previously presented by answer to the bill in equity (R., 24-32).

The Bill for Discovery.

The bill for discovery sets forth the pendency and nature of the action at law, the facts sought to be discovered, and the grounds upon which those facts are alleged to be pertinent in the action at law (R., 4-12), and the pleadings in the action at law are annexed to the bill as exhibits. Also, the bill for discovery includes as a part thereof the interrogatories designed to call forth the desired information (R., 6-9).

The information sought to be elicited by the discovery relates exclusively to the fact, nature, and extent of the use of the Isom invention by Sinclair Company during the period beginning November 19, 1919, one year after the grant of the Isom patent, and extending to August 29, 1929, the date upon which the declaration in the action at law was filed. This information is alleged to have a material bearing upon the amount of damages recoverable in the action at law.

The allegations of the bill, so far as they relate to these matters, are that Sinclair Company, during the period referred to, carried on an extensive business in

the cracking of petroleum oils, operating many stills embodying the characteristic features of the Isom invention, and producing a large quantity of gasoline and other petroleum products with that invention as the basis of its production; and that Jenkins Company cannot prove its damages at the trial of the action at law with any degree of accuracy and completeness without discovery in advance of trial as to (a) whether Sinclair Company, during the period in question, constructed and operated such stills, (b) the number of stills constructed and the period during which each still was operated, (c) the particular character, type, and construction of each still, as shown by drawings, tracings, and blueprints in the possession of Sinclair Company, (d) the number of barrels of gasoline and other products resulting from cracking processes involving the use of the stills, and (e) the amount of petroleum oil charged into the stills (R., 6-9).

With respect to part of the discovery sought, *viz.*, whether Sinclair Company used stills embodying the Isom invention during the ten-year period referred to, the number of such stills and the period during which each was operated, and the particular character, type and construction of the stills as shown by drawings, etc., in possession of Sinclair Company, nothing is alleged in the bill to show that the desired information cannot be made practically available to Jenkins Company for use at the trial of the action at law by invoking the existing legal remedies. The bill contains merely the statement of the bare conclusion that Jenkins Company cannot prove its damages accurately and completely without discovery of those facts in advance of trial (R., 4-6).

With respect to the other facts sought to be discovered, *viz.*, the number of barrels of gasoline and other products resulting from processes involving the use of Isom stills and the amount of petroleum oil charged into such stills, the bill alleges that the information desired is contained

in books, records, and papers in possession of Sinclair Company and cannot be made practically available to Jenkins Company without discovery in advance of trial, for the reason that the pertinent entries and notations are so numerous and complicated, and cover so large a production over so long a time, as to render it impossible for Jenkins Company, its attorneys and representatives, to make the necessary examination thereof during the trial if production of the books, records and papers were compelled by *subpoena duces tecum* (R., 5).

Defendant's Motion to Dismiss.

Defendant moved to dismiss the bill for discovery (R., 33). In support of the motion, defendant urged that it appears from the bill that complainant is not entitled to the relief asked because (1) the facts sought to be discovered are irrelevant and immaterial to any facts plaintiff must establish to maintain the action at law or to the amount of damages recoverable, (2) a bill for discovery cannot be maintained to discover evidence relating solely to the amount of damages recoverable in an action at law, and (3) the desired evidence can be obtained in a practically useful way without invoking the assistance of a court of equity.

Dismissal of Bill by District Court.

The cause coming on to be heard on the motion of the defendant to dismiss the bill, the District Court granted the motion and dismissed the bill with costs (R., 40). In dismissing the bill the District Court held that the amount of damages recoverable by the plaintiff must be measured by the value of the invention and the patent application at the date of the alleged breach of contract;

that such value must be determined in the light of such relevant facts and circumstances as then existed; that the alleged breach of contract, if any breach there was, occurred September 10, 1917, when the Isom application was filed; and that the evidence sought to be discovered, since it relates to facts having no existence until after that date, is not pertinent to the amount of damages recoverable, and would be inadmissible if offered at the trial (R., 36, 39, 40; 56 F. [2d], 272, at pp. 274, 275, 276). The District Court also held that a bill for discovery cannot be maintained for discovering evidence that relates solely to the amount of damages recoverable by the plaintiff in an action at law (R., 37-38; 56 F. [2d], 272, at p. 275). The objection that complainant has a clear, plain, and adequate remedy at law was not discussed by the District Court.

Decree and Opinion of the Court of Appeals.

On appeal, the Court of Appeals for the First Circuit, by a divided Court, reversed the decree of the District Court dismissing the bill for discovery (R., 91). In deciding the case, the Court of Appeals held that the evidence sought to be discovered, except as it relates to the precise extent to which Sinclair Company made use of the invention, is relevant to the amount of damages recoverable by the plaintiff in the action at law (R., 85, 62 F. [2d], 663, at p. 665); that a bill for discovery may be maintained to discover evidence relevant only to the amount of damages recoverable in an action at law (R., 83-84, 62 F. [2d], 663, at pp. 664, 665); that the allegations of the bill warrant discovery in advance of trial of the facts sought to be discovered, except as they relate to the precise extent to which Sinclair Company made use of the invention (R., 86, 62 F. [2d], 663, at p. 665); that evidence showing the precise extent to

which Sinclair Company made use of the invention, while it is not material to plaintiff's case in chief and for that reason not discoverable in advance of trial, might become relevant if Sinclair Company, at the trial, should deny the utility and commercial success of the invention; that under such circumstances plaintiff would be entitled to discovery of such evidence; and that the bill should be retained so that prompt discovery could then be ordered (R., 86, 62 F. [2d], 663, at p. 665).

In arriving at this conclusion the Court said (R., 85, 62 F. [2d], 663, 665): "We do not think that a court, valuing in judicial proceedings an invention described in an application for a patent, is obliged to shut its eyes to the result of the application, nor to the commercial utility of the invention as shown by the use of it in the art or industry to which it relates, but may take evidence on those points up to the time of trial. Williston on Contracts, page 2394."

The Court of Appeals also held that, upon the allegations of the bill, the contract upon which the action at law is founded is to be regarded as breached only when Sinclair Company finally disabled itself from performing it; hence, the breach, if any there was, occurred on November 19, 1918, the date upon which the application ceased to be an application and became merged in the patent issued on that date to Sinclair Company (R., 86-87, 62 F. [2d], 663, 665, 666).

SPECIFICATION OF ERRORS.

The errors which petitioner urges are that the Court of Appeals for the First Circuit erred in the following matters, to-wit:

1. In reversing the decree of the District Court of Maine dismissing respondent's bill for discovery.

2. In holding that the evidence sought to be discovered, except as it relates to the precise extent to which petitioner made use of the Isom invention, is relevant to the amount of damages recoverable by plaintiff in the action at law.

3. In holding that a bill in equity for discovery may be maintained to discover evidence relevant only to the amount of damages recoverable in an action at law.

4. In holding that the allegations of respondent's bill for discovery warrant discovery in advance of trial of the facts sought to be discovered, except as they relate to the precise extent to which petitioner made use of the Isom invention.

5. In holding that respondent's bill for discovery ought to be retained in order that discovery of the precise extent to which petitioner made use of the Isom invention may be ordered during the trial of the action at law in the event that an issue arise at the trial to which such evidence would be relevant.

6. In holding that the contract upon which the action at law is founded is to be regarded as breached only when Sinclair Company finally disabled itself from performing it, in the absence of proof of repudiation brought home to Jenkins Company at an earlier date.

7. In failing to hold that the contract upon which the action at law is founded is to be regarded as breached when the duty of performance, if any there was, became immediately due and was not discharged.

SUMMARY OF ARGUMENT.

In support of the contention that the decree of the Court of Appeals for the First Circuit should be reversed

and the decree of the District Court affirmed, petitioner will urge that respondent is not entitled to the relief prayed for in the bill for discovery for the following reasons:

I. The evidence sought to be discovered is not relevant to the matter in support of which it is desired, *viz.*, the amount of damages recoverable in the action at law for the alleged breach of contract.

II. The evidence sought to be discovered, if relevant, can be obtained in a practically useful way without invoking the assistance of a court of equity.

III. A bill for discovery cannot be maintained to discover evidence relating solely to the amount of damages recoverable by plaintiff in an action at law.

ARGUMENT.

I.

THE EVIDENCE SOUGHT TO BE DISCOVERED IS NOT RELEVANT TO THE MATTER IN SUPPORT OF WHICH IT IS DESIRED, *VIZ.*, THE AMOUNT OF DAMAGES RECOVERABLE IN THE ACTION AT LAW FOR THE ALLEGED BREACH OF CONTRACT.

This conclusion is founded upon the following propositions: (a) the compensation recoverable by plaintiff in the action at law must be measured by and limited to the market value of the Isom invention and application at the date when the alleged breach of contract occurred; (b) the breach of contract, if any there was, occurred at least as early as November 19, 1918; and (c) the evidence sought to be discovered relates exclusively to what happened long subsequent to the date

of the breach, namely, between November 19, 1919, and August 29, 1929, and therefore is not relevant or admissible to prove the market value of the Isom invention and application at the date of the alleged breach.

Market Value at the Time of the Breach is the Standard By Which the Damages Recoverable Are to be Measured.

The principle upon which damages for breach of contract are assessed is that, so far as a monetary award will do so, the injured party is to be placed in the same position as he would have been in at the time of the breach if the contractual duty owing to him had been performed. *Benjamin* vs. *Hillard,* 23 How., 149, 167; *Wicker* vs. *Hoppock,* 6 Wall., 94, 99. He is not to be placed in a better position. *Bauman* vs. *Ross,* 167 U. S., 548, 574; 17 *Corpus Juris,* page 848.

The rule best adapted to secure this result in the class of cases here involved is well settled. Long ago, in *Shepherd* vs. *Hampton,* 3 Wheat., 200, this Court announced the rule that the damages recoverable for breach of contract to assign or transfer property are to be measured by the market value of the property at the time of the breach. In that case the breach of contract was the failure to deliver cotton at the time and place agreed upon. The market price of cotton subsequently increased to three times the contract price and the plaintiff contended that the damages should be measured by the increased value of the cotton subsequent to the date of the breach. Speaking of this contention, Chief Justice Marshall said (p. 204):

> "The only question is whether the price of the article at the time of the breach of the contract, or at any subsequent time before suit brought, constitutes the proper rule of damages in this case. The unanimous opinion of the court is, that the price of

> the article at the time it was to be delivered, is the measure of damages."

This rule was subsequently applied in *Marsh* vs. *McPherson,* 105 U. S., 709, and later, in *Effinger* vs. *Kenney,* 115 U. S., 566, Mr. Justice Field stated the rule as follows (p. 575):

> "Where a contract is for the delivery of specific articles, the rule undoubtedly is that the damages recoverable for its breach are to be determined by the value of the articles at the time and place of their delivery."

The rule is the same as that applied in other situations requiring the assessment of damages for the deprivation of property. It is the rule used in measuring compensation for the taking of property under the power of eminent domain. The owner is entitled to recover the market value of the property at the time of the taking. *Brooks-Scanlon Co.* vs. *United States,* 265 U. S., 106, 123; *L. Vogelstein & Co.* vs. *United States,* 262 U. S., 337, 340; *United States* vs. *New River Collieries Co.,* 262 U. S., 341, 344; *Seaboard Air Line R. Co.* vs. *United States,* 261 U. S., 299, 306; *United States* vs. *Chandler-Dunbar Co.,* 229 U. S., 53, 80, 81; *Monongahela Nav. Co.* vs. *United States,* 148 U. S., 312, 341. And where property is destroyed by wrongful act, the compensation the owner may recover is the market value of the property at the time of destruction. *Standard Oil Co.* vs. *Southern Pacific Co.,* 268 U. S., 146, 155; *The Baltimore,* 8 Wall., 377, 385.

Counsel for respondent agree that the general rule is that damages for breach of a contract to transfer property are to be measured by the market value of the property at the time of the breach, but contend that the general rule should not be applied in the instant case "because the subject matter of the contract makes

the ascertainment of such a market value absolutely impossible." (Respondent's brief opposing petition for writ of *certiorari*, p. 21, second paragraph.) The unsoundness of such a contention was pointed out by this Court in *Burnet* vs. *Houston*, 283 U. S., 223.

Surely difficulty in applying a rule found by long experience and careful thought to be a sound and fair rule, does not justify rejection of the rule and adoption in its stead of some rule other than the sound and fair one. Instead, the difficulties in the path of application of the sound and fair rule call merely for exercise of greater care and effort in overcoming the difficulties.

It is true that the market value of an unpatented invention or a patent application or a patent cannot be established, as in the case of staple merchandise, by reference to contemporaneous sales of like property. This, however, does not render "impossible" the ascertainment of the market value of the property or require abandonment of the "market value" standard of determining damages for breach of the contract. More difficult problems of evaluation have been presented to the Courts than ascertainment of the "market value" of an unpatented invention, or a patent application, or a patent, and solutions have been arrived at by the ordinary processes of judicial procedure which were found to be so acceptable as to warrant using them as bases for decrees in litigations. The rule to be followed is that the market value is that sum which in all probability would result from fair negotiations between an owner willing to sell and a purchaser desiring to buy. Such sum is to be fixed as accurately as it may be by such evidence as is available for the purpose, and to the extent that other and more reliable evidence is not available, opinion evidence may be received. *Standard Oil Company* vs. *Southern Pacific Co.*, 268 U. S., 146, 155, 156; *Brooks-Scanlon Co.* vs. *United States*, 265 U. S., 106, 123, 124; *DeLaval Steam Turbine Co.* vs. *United States*, 284 U. S., 61, 71-72.

In *Standard Oil Company* vs. *Southern Pacific Company, supra,* this method or formula was used to determine the market value of a ship at the time of its loss or destruction by collision. In that case the Court said:

> "Where there is no market value such as is established by contemporaneous sales of like property in the way of ordinary business, as in the case of merchandise bought and sold in the market, other evidence is resorted to. The value of the vessel lost properly may be taken to be the sum which, considering all the circumstances, probably could have been obtained for her on the date of the collision; that is, the sum that in all probability would result from fair negotiations between an owner willing to sell and a purchaser desiring to buy."

In *Brooks-Scanlon Co.* vs. *United States, supra,* and in *DeLaval Steam Turbine Co.* vs. *United States, supra,* it was held that the market value of contracts at the time of their requisition by the government under the power of eminent domain should be so determined.

That unpatented inventions and patent applications and patents have what may fairly be called "market value" is not open to question. Clearly they have market value as much as a piece of land which is supposed to have beneath its surface mineral ore of unknown amount and at unknown depth and in unknown condition, and the Courts have had frequent occasion to determine the market price of such mineral land as of a specified date. Such a case is *Montana Railway Co.* vs. *Warren,* 137 U. S., 348, where this Court had to consider the question whether or not the trial Court had erred in admitting opinion evidence not based on sales of the same or similar property to establish the market value of property taken by a railroad company under the right of eminent domain. The property taken was a strip of land running through a mining claim or "pros-

pect" which had been developed so far as to indicate that possibly, or even probably, a rich vein of ore extended through the property. Mr. Justice Brewer, delivering the opinion of the Court, said (p. 352):

> "That this mining claim, which may be called 'only a prospect,' had a value fairly denominated a market value, may, as the Supreme Court of Montana well says, be affirmed from the fact that such 'prospects' are the constant subject of barter and sale. Until there has been full exploiting of the vein its value is not certain, and there is an element of speculation, it must be conceded, in any estimate thereof. And yet, uncertain and speculative as it is, such 'prospect' has a market value; * * *."

Unpatented inventions and patent applications, like mining prospects, are the constant subject of sales. Inventors commonly sell their inventions at or prior to filing patent applications or while their applications are pending in the Patent Office, as shown, for example, in *Eclipse Bicycle Co.* vs. *Farrow*, 199 U. S., 581. Statutory provision has been made for recording assignments of applications and issuing patents thereon to assignees. Revised Statutes, Section 4895 (U. S. Code, Sec. 44). Most of the patents coming before the Courts for enforcement are patents issued to assignees of patent applications under the provisions of this statute. Discussions of the considerations affecting the prices obtainable for unpatented inventions and patent applications are to be found in books relating to patent rights, and their exploitation (see *"Inventions and Patents, Their Development and Promotion,"* by Milton Wright, Associate Editor of "Scientific American," Chapters IX to XIII, published 1927).

How one shall proceed to establish the market value of an unpatented invention, or a patent application, or a patent as of a certain date, namely, that amount which

would be arrived at by fair negotiations between a willing owner and an acquisitive purchaser, may present questions as to the best evidence involving some difficulties, but certainly such difficulties can be successfully met in the case of an invention, or patent application, or patent, if they can be met, and have been met, successfully in cases involving mining prospects and ships which have become a total loss by sinking or burning and contracts for the construction of ships, buildings and the like.

Another objection made by the respondent to measuring the damages recoverable for the alleged breach of contract by the market value of the Isom invention and application at the date of breach is that application of the rule will "protect a defendant in the enjoyment of what it wrongfully has acquired or has withheld" (Respondent's brief opposing petition for writ of *certiorari*, p. 21, first paragraph).

The possibility of such a result did not deter this Court from applying the rule in *Shepherd* vs. *Hampton*, 3 Wheat., 200, where the cotton contracted for subsequently increased to three times the contract price. Nor should the possibility of that result deter the Court in this case. The inquiry in any case where damages for deprivation of property are sought is what the injured party lost, not what the other party gained. *Boston Chamber of Commerce* vs. *Boston*, 217 U. S., 189, 195.

The Court of Appeals Opinion.

The opinion of the Court of Appeals does not indicate with any clarity that the Court adopted the view that the damages recoverable are to be measured by the market value of the Isom invention and application at the date of the alleged breach. It even admits of the view that the Court was of the opinion that the damages recoverable are to be measured by the value of the inven-

tion *at the date of trial,* by reason of the statements that a patent application "has no 'market' value in the strict sense of that term," that the money value of an invention "may be estimated from the change which it effected in the practice of the art," that evidence of "the commercial utility of the Isom invention as shown by the use of it in the art or industry to which it relates is admissible to show the inherent character and place of the invention," and that evidence on those points may be taken "up to the time of trial."

We understand the opinion to mean that in the Court's view the damages recoverable are to be measured by the market value of the invention and application at the date of the alleged breach and that evidence of what transpired in the use of the invention in the ten years after the alleged breach is admissible and may be considered for such indication as it will give of the value of the invention and application at the date of the alleged breach.

In support of its conclusion, the Court of Appeals cited *United States Frumentum Company* vs. *Lauhoff,* 216 Fed., 610, *Hetzel* vs. *Baltimore & Ohio R. Co.,* 169 U. S., 26; *Cincinnati Siemens-Lungren Gas Illuminating Co.* vs. *Western Siemens-Lungren Co.,* 152 U. S., 200; and *Williston on Contracts,* page 2394.

On analysis, these authorities are found to afford no support for the Court's view and no reason for rejecting the established rule that the damages recoverable are to be measured by the market value at the date of the breach.

In *United States Frumentum Co.* vs. *Lauhoff,* 216 Fed., 610, C. C. A., 6, the opinion of the Court contains expressions which might suggest that where the market value of property cannot be established by showing what the same or similar property commonly sold for, the market value criterion of measuring damages for its wrongful

taking must fail (pp. 615, 616). But this is not what the Court actually decided.

The question before the Court was whether a patentee who granted no licenses under his patent and, for that reason, could not prove his damages by showing a fixed or established royalty, must be restricted to the recovery of nominal damages for infringement. The Court held that the compensation recoverable by such a patent owner is the amount which the right to use the patented invention would have brought in the open market during the infringing period, and that the primary measure of that amount is the price at which the patentee customarily granted licenses; but that where that method of measuring the damages cannot be used because no licenses were granted by the patentee, it is permissible to establish what the right to use the patented invention would have brought in the market during the infringing period by proving what would have been a reasonable royalty for such use. This does not involve abandonment of the market value standard of measuring damages for the deprivation of property. It is but the application to patent infringement suits of the rule applied in other cases that where the market value of the property involved cannot be shown by contemporaneous sales of like property, it may properly be taken to be the sum that in all probability would result from negotiations between a willing buyer and a willing seller.

In *Hetzel* vs. *Baltimore & Ohio R. Co.*, 169 U. S., 26, the Court held that an owner of adjacent property is entitled to recover damages equivalent to the injury sustained as the result of unlawful obstruction of a street, and that in determining the amount of damages a jury may properly consider the market value of the property during the period the street was obstructed and what might have been obtained for it during that time if the street had not been occupied and used by the defendant. In the course of the opinion, speaking

of the certainty required of proof of damages, this Court said (p. 37):

> "Of course in such inquiries, absolute certainty as to the damages sustained is in many cases impossible. All that the law requires is that such damages be allowed as, in the judgment of fair men, directly and naturally resulted from the injury for which suit is brought. This is the rule which obtains in civil actions for damages. They have their foundation in the idea of just compensation for wrongs done."

There is nothing in the case that requires rejection of the market value test for measuring damages for breach of a contract to assign property.

In *Cincinnati-Siemens-Lungren Gas Illuminating Co.* vs. *Western Siemens-Lungren Co.*, 152 U. S., 200, this Court held that an exclusive licensee whose licensor, in violation of the contract, had knowingly permitted sales of the patented articles to be made in the exclusive territory, cannot recover the profits he would have made if he had made the sales without proof that he would in fact have made them but for the violation of the contract. The Court based its decision on the rule laid down in *Seymour* vs. *McCormick*, 16 How., 480, 486, 490, that actual damages must be actually proved, and in commenting upon the controlling effect of that case said (p. 205):

> "It is true that that was an action for an infringement, and this for a breach of a contract, but still the rule of damages is the same."

That damages must be proved to warrant recovery does not require abandonment of the market value method of determining damages in a case like the present one.

The reference to *Williston on Contracts,* page 2394, is to the last sentence in Section 1339, where the author, speaking of the measure of damages in cases where the time for all the performance defendant has promised has not arrived at the date of breach, and discussing the *present* value of this *future performance,* says:

> "If the case is not tried too soon to make it possible, evidence is admissible to show that in the future the damage if not speculative or remote actually turned out to be greater or less than the value which would have been placed at the time of the breach on the future undertakings in the contract."

This statement has no application to the present case. We are not here concerned with a breach of any undertaking in which the time for the performance has not yet arrived.

We therefore submit that the general rule for determining damages for breach of contract to transfer property is applicable to this case; that the damages the plaintiff may recover are to be measured by the market value of the Isom invention and application at the date of the breach; and that the market value is such sum as would in all probability have resulted from negotiations at the date of the breach between an owner willing to sell and a purchaser desiring to buy.

The Date of the Alleged Breach.

The District Court was of the opinion that the facts alleged in the declaration, taken in connection of the undenied assertions of counsel that the records of the Patent Office show that the Isom application was assigned to Sinclair Company when it was filed, establish that the breach occurred not later than September 10, 1917, when the Isom application was filed. In his opin-

ion, Judge Peters said (R., 35, 36-37; 56 F. [2d], 272, 274):

> "The pending suit at law is and should be regarded simply as an action to recover damages for the failure of the defendant to cause to be turned over to the plaintiff something alleged to be of value, viz., the Isom application and the improvements covered by it. The letters patent show that Isom assigned his application to the defendant. It is asserted by counsel that the records of the Patent Office show that the application had been so assigned when it was filed, in which case it would seem that any breach occurred not later than September 10, 1917, when the application was filed."

The Court of Appeals held that, upon the facts alleged in the declaration, the breach of contract occurred November 19, 1918, the date upon which the patent issued to Sinclair Company on the Isom application. Discussing this question, Judge Morton said (R., 86-87; 62 F. [2d], 663, 665, 666):

> "Some question is raised as to the point of time at which the defendant's breach of contract occurred. The correct date will depend on the facts proved at the trial. If there was no repudiation of the contract of which notice was given to the plaintiff, the contract may be regarded as broken when the defendant finally disabled itself from performing it. The defendant, after having taken the assignment of the application from Isom, could have reassigned it to the plaintiff with the same effect as if originally so assigned by Isom. The contract would have been complied with by such an assignment. The interposition of the mesne assignment would not affect the plaintiff's rights; and it was open to the defendant to carry out the contract in that way if it saw fit to do so. It was therefore within the power of the defendant to perform the contract at any time

until the application had become merged into the patent. While the defendant could still have transferred the patent after it had been issued, the transfer of a patent is substantially different from the assignment of the application for it; the value of the patent can be greatly affected for better or worse by the way in which the application is handled in the Patent Office. On the facts alleged, the contract appears to have been broken on the date when the application became merged into the patent."

It will be noted that the majority of the Court of Appeals took the view that, on the facts alleged, the contract sued on is to be regarded as breached only when Sinclair Company became disabled from performing the supposed obligation to cause Isom to assign his application to Jenkins Company; that it was open to Sinclair Company to carry out the contract by reassigning the application to Jenkins Company at any time before the application became merged into the patent; and that complete disability to do so did not arise until the application, by merger into the issued patent, ceased to have existence.

The District Court, on the other hand, was of the opinion that the contract imposed upon Sinclair Company an obligation to cause the invention and application to be assigned to Jenkins Company as soon as any invention and application covered by the contract came into existence; that the Isom invention and application were in existence September 10, 1917, and that the breach of contract occurred at least that early. This is the view petitioner believes to be correct.

It is elementary that a breach of contract occurs "when performance has become immediately due and has not been rendered," and that a duty of immediate performance exists "when all things have happened and the necessary time has elapsed to make present performance by a promisor obligatory." *American Law In-*

stitute, Restatement of the Law of Contracts, Section 50, Comment c.

We submit that the contract here under consideration contemplated that performance would "become immediately due" as soon as an invention coming within the contract was made and a description of it in the form of a patent application was prepared and filed.

The contract (see Appendix, *infra*, p. 61) provides that improvements of the kind contemplated "*shall accrue*" to Jenkins Company, and that Sinclair Company shall cause its employees, so far as it is able to do so, to execute applications for patents thereon "*at the expense of the Jenkins Petroleum Process Company*" and to assign said applications, together with the improvements they are intended to protect, to Jenkins Company. The "*necessity*" for these provisions is explained by saying that such improvements "*belong by right to their employer, and under the circumstances here involved, of course, to Jenkins Petroleum Process Company.*"

These provisions indicate unmistakably that the parties intended that Jenkins Company, so far as possible, was to be placed in the same position as if the inventor were its own employee hired to make the invention. As in such cases, the "improvements" were to "*accrue*" to Jenkins Company when made. Its right to the property was to attach the moment it came into existence. *Standard Parts Co.* vs. *Peck*, 264 U. S., 52; *T. B. Harms & Francis, Day & Hunter* vs. *Stern*, 229 Fed., 42, 48.

One of the important factors in securing adequate patent protection for an invention is the proper and skillful preparation of the patent application. Rule 17 of the Rules of Practice of the Patent Office advises the employment of a competent patent attorney, pointing out that "the value of patents depends largely upon the skillful preparation of the specification and claims." An employer who is entitled to the inventions of an employee, under a contract of employment, is naturally in-

terested in having the patent applications for such inventions skillfully prepared by a competent patent attorney; and the expense of such preparation is a proper expense for the employer to assume. The contract on which the present suit is based specifically provides that the execution of applications shall be at the expense of the Jenkins Company, and the company should properly have the right to control that for which it is required to pay.

Another important right incident to the ownership of a patent application is the right to control the prosecution of the application in the Patent Office. The assignee may be represented by an attorney of his own selection and is entitled to hold correspondence with the Patent Office to the exclusion of the inventor (Patent Office Rules of Practice, Nos. 5, 17 and 20).

Another right incident to the ownership of an unpatented invention and patent application is the right to grant licenses and make contracts relating to the use, manufacture, and sale of the invention. Such contracts have been repeatedly upheld and enforced. *Eclipse Bicycle Co.* vs. *Farrow*, 199 U. S., 582; *Brush Electric Co.* vs. *California Electric Light Co.*, 52 Fed., 945, C. C. A., 9. Provision for the assignment of patent applications has been made by a separate statute (Rev. Statutes, Sec. 4895 [35 U. S. Code, Sec. 44]) from the one relating to the assignment of issued patents and interests therein (Rev. Statutes, Sec. 4898 [35 U. S. Code, Sec. 47]).

To hold that the parties did not intend that Jenkins Company should be entitled to have the contemplated "improvements" transferred and assigned to it immediately they came into existence, and that no breach of contract occurred, absent demand by Jenkins Company or repudiation by Sinclair Company, until the application matured into a patent, is to hold that they did not intend that Jenkins Company should have the right to

control the preparation and prosecution of the patent application or to control the other important rights incident to ownership of unpatented inventions during the pendency of patent applications in the Patent Office. But that the parties contemplated that Jenkins Company should have assignments of the inventions and applications immediately they came into existence, is shown not only by the provision that the inventions and applications should "accrue" to Jenkins Company, but also by the provision that the preparation of applications for patent protection should be "at the expense of" Jenkins Company, and by the explanation of the necessity for these provisions, *viz.*, that the Jenkins Company was to be considered the same as if it were the employer of the inventors.

The conclusion of the majority of the Court of Appeals, that the alleged breach did not occur until the date of issuance of the patent, is made the more strange by the Court's comment upon the value and importance of ownership of the patent protection while still in the form of an application for patent. The Court expressed its recognition of the fact that the value of the protection ultimately obtained might be varied over a wide range by what was done by the record owner of the application during its pendency in the Patent Office.

For these reasons we think it is clear beyond question that the breach of the contract, assuming there was one, occurred on September 10, 1917, when the Isom application was filed and assigned to Sinclair Company, as held by the District Court in this case, and not on November 19, 1918, when the patent issued to Sinclair Company, as held by the majority of the Court of Appeals.

The contract put the Jenkins Company in the position of the employer of the inventors, and deferring the

assignment of such an application to the employer until long after it was filed denies to the employer the full enjoyment of rights above discussed to which he is justly entitled. Viewed in this light, the issue here presented is of application far beyond this case, for it extends to the rights of employers and employees in unpatented inventions and patent applications generally.

For this reason, and also for the guidance of the Courts and the litigants in the determination of the suit at law, it is most desirable that this Court dissolve the conflict between the views of the District Court and the Court of Appeals on this right by an authoritative pronouncement.

Statute of Limitations.

In the two concluding paragraphs of respondent's brief in opposition to the petition of certiorari (pp. 26, 27) the argument is made that it would be unreasonable to fix the breach as occurring when the application was filed because, if the cause of action occurred at that time, plaintiff could have avoided any liability by the simple expedient of keeping the application pending in the patent office for the period of limitation without informing respondent of its existence.

It has been repeatedly held that damages are to be assessed as of the date of the breach or injury regardless of the fact that the statute of limitations may not have begun to run until after discovery of the breach or injury complained of.

In *Blake* vs. *Traders National Bank*, 145 Mass., 13, a breach of trust occurred in 1867 which the cestuis que trust did not discover until 1877. The Supreme Court of Massachusetts held that the action was not barred by the statute but that the amount recoverable was the value of the property at the time of the breach with interest.

In *Petrelli* vs. *West Virginia, Pittsburgh Coal Co.*, 86 W. Va., 607, 104 S. E., 103, it was held that the Statute of Limitations did not begin to run until the discovery of the trespass, or the time when discovery was reasonably possible, but the measure of damages for the trespass was the value of the mineral at the time of the trespass, which was several years earlier.

In *Kingston* vs. *Lehigh Valley Coal Co.*, 241 Pa., 469, 88 A., 763; 49 L. R. A. (N. S.), 557, it was similarly held that the running of the statute did not begin until the discovery of the trespass, but that nevertheless it was the date of the trespass which determined the value and the measure of damages.

Accordingly, even if plaintiff's ignorance of the filing of the Isom application should prevent the beginning of the running of the Statute of Limitations, that would not change the date of the alleged breach or effect the measure of damages for that breach.

The Evidence Sought To Be Discovered Has No Tendency to Prove the Market Value of the Isom Invention at the Date of the Alleged Breach.

The facts sought to be discovered relate exclusively to the fact, nature, and extent of the use of the Isom invention by Sinclair Company during the period beginning November 19, 1919, one year after the grant of the Isom patent, and extending to August 29, 1929, the date upon which the action in equity was amended into an action at law by the filing of plaintiff's declaration (See Statement of Facts, *supra*, pp. 5 and 6). This period is all subsequent to the date of breach indicated by both the District Court and the Court of Appeals.

The District Court held that this evidence is not pertinent to the market value of the Isom invention and application at the date of the breach, because it relates

to facts having no existence at that time (R., 37; 56 F. [2d], 272, at p. 276).

The Court of Appeals, by two of its members, held otherwise. Its views as to the relevancy of the evidence sought are stated in the opinion, as follows (R., 84, 85, 86; 62 F. [2d], 663, at p. 665):

> "The plaintiff's damages are the loss which it sustained by being deprived of the application and the resulting patent. The Sinclair Company contends that the grant of the patent and the commercial use of the invention are not admissible on the value of the application and are therefore irrelevant on the question of damages.
>
> An application for a patent, being a thing sui generis, has no 'market' value in the strict use of that term. Standard Oil Co. vs. So. Pacific Co., 268 U. S., 146, 45 S. Ct., 465, 69 L. Ed., 890; United States Frumentum Co. vs. Lauhoff, 216 F., 610 (C. C. A., 6). Its money value may be estimated from the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art. These facts, and other relevant circumstances, may be supplemented by opinion evidence of value, as in the case of real estate. Montana R. Co. vs. Warren, 137 U. S., 348, 11 S. Ct., 96, 34 L. Ed., 681.
>
> We do not think that a court, valuing in judicial proceedings an invention described in an application for a patent, is obliged to shut its eyes to the result of the application, nor to the commercial utility of the invention as shown by the use of it in the art or industry to which it relates, but may take evidence on those points up to the time of trial. Williston on Contracts, page 2394.
>
> Such evidence is not for the purpose of showing increase in value or new uses, which as is well settled with regard to the valuation of land taken by eminent domain, would not be admissible, but to

> show the inherent character and place of the invention in question. It is analogous to evidence of successful commercial use of a patent on the question of invention, and of the actual results of a physical injury for which damages are sought. Hetzel vs. B. & O. R. Co., 169 U. S., 26, 18 S. Ct., 255, 42 L. Ed., 648; Cincinnati Siemens-Lungren Gas. I. Co. vs. Western S. L. Co., 152 U. S., 200, 14 S. Ct., 523, 38 L. Ed., 411."

As we have stated, petitioner maintains that the damages recoverable are to be measured by the market value of the Isom invention and application at the date of the alleged breach of the contract. Therefore, evidence that Sinclair Company made use of the invention in the ten years from 1919 to 1929, long subsequent to the date of the alleged breach, has no relevancy to the amount of damages plaintiff may recover, for the reason that such evidence has no tendency to prove what would have influenced a willing seller and a willing buyer negotiating for the application in September, 1917 or November, 1918.

In arriving at the sum to be paid, such a willing seller and a willing buyer could have been influenced only by facts and circumstances as they existed at the date of the alleged breach. They would not know and could not foresee as a certainty that the invention would be used commercially by Sinclair Company or by anyone else in the period between 1919 and 1929. To invest the willing seller and willing buyer of September 10, 1917 or November 19, 1918, with certain knowledge of such use would be filling them with wisdom after the event.

The nature of an invention, a patent, or a patent application, is such that it may be of great value at one time and utterly worthless at another (*Alpha Portland Cement Co.* vs. *Schratweiser,* 221 Fed., 258, 259). The frequency with which a discovery is superseded so that it becomes of little or no value, as well as the frequency

with which discoveries that had little or no value when made become exceedingly valuable as the result of some unforeseen development, is well understood.

The value of such property depends entirely upon how matters stood at the date with respect to which it is valued, and a Court, in determining the value as of any given date, should solve the question in the light of facts and circumstances as they then existed and not as they might have come into existence years later. This is not to disregard the future, but the future must be forecast in the light of things presently known and carry the hazard of uncertainty which attends all prophecies regarding future value.

The value the Isom invention and application had in the light of facts known or foreseeable at the date of the alleged breach of contract is one thing; the value they had in the light of commercial utilization by Sinclair Company during the period of ten years or more thereafter is another; and between the two there is no demonstrable relation. The Isom invention relates to the art of oil cracking, and the changing technical and commercial conditions existing in that art during the ten years period covered by the bill for discovery will be evident to this Court from its consideration of those conditions in connection with the case of *United States* vs. *Standard Oil Co.*, 283 U. S., 183.

Counsel for respondent contend that to require the value of the Isom invention and application to be determined in the light of such facts and circumstances as existed at the date of the alleged breach of contract would so limit the evidence admissible at the trial as to deprive Jenkins Company of fair compensation for the loss occasioned by the breach. They say (Respondent's brief opposing petition for certiorari, pp. 24, 25):

> "Under those conditions, practically the only evidence which the respondent would be allowed to in-

troduce to establish the value of the Isom application or patent as the measure of damages to which the respondent is entitled, would consist of the purely theoretical and speculative opinion of experts based solely on a study of the patent application and the state of the art as of the date that application should have been assigned to plaintiff * * *. In accordance with the petitioner's contentions, however, the jury would be limited to the purely speculative inquiry, first as to whether any patent would issue on the basis of the original application filed by Edward W. Isom, and if so, as to the scope that patent would have and as to the inventions that would be covered thereby, and second, as to the commercial value of the patent, the scope and the fact of the issuance of which would depend upon the result of the first speculative inquiry. Both those inquiries, of course, in accordance with the petitioner's contentions, would be made entirely from the viewpoint of September 10, 1917, and all actual facts, and all actual knowledge derived from any matters and things of any later date than September 10, 1917, would be disregarded and would be kept from the consideration of the jury."

Respondent cannot justly complain if the value which is to determine the amount of its recovery is to be fixed largely or entirely by opinion evidence. A case directly on this point is *Montana Railway Co.* vs. *Warren*, 137 U. S., 348, 352-3, wherein this Court said that "evidence of value is largely a matter of opinion."

It is true that the evidence admissible at the trial would be limited to that outlined in the above argument if such matters were all a willing seller and a willing buyer negotiating for the Isom invention and application could have known, or could have foreseen, at the date of the alleged breach of contract. But this is not, as counsel for respondent seem to believe, a

reductio ad absurdum. Quite the contrary, for if the compensation recoverable is limited to the value of the invention and application at the date of breach, respondent is not entitled to have their value determined in the light of facts which, because they had no existence, could not have influenced anyone in estimating their value.

Nor has it ever been considered that one whose damages are to be measured by the value of property as of any given date is deprived of just and fair compensation by the fact that in determining the value of the property no consideration is given to facts and circumstances having no existence at the pertinent time. Instances illustrative of this are in great number.

PRECEDENTS RELIED UPON.

The War Claims Arbiter, functioning under the Settlement of War Claims Act of 1928, was called upon to establish rules dealing with the basis of fair compensation for patents and patent rights seized during the World War, and in his "Administrative Decision No. 2" he announced that he would be guided by the following rule which was manifestly formulated to accord with the weight of judicial precedent available at the time (pp. 54-55).

"Basic Rule."

> "The phrase 'as nearly as may be determined' as used in the Act is but a recognition of the fact that mathematical accuracy cannot be approximated in fixing fair compensation. But, considering all of the facts in each case, the aim of the Arbiter will be to arrive at an amount as nearly as may be determined, which, in all probability, would have resulted from fair negotiation between a citizen of the United States who was willing to sell or license his patent, on the one part, and the Government of the United States which desired to buy the patent

or to acquire the grant of a license, on the other part.

In arriving at this amount the Arbiter will weigh all of the relevant facts as developed in each case with a view to determining (1) what a reasonably prudent and experienced person, duly authorized to represent the Government, would have been willing to pay at the pertinent time, in the light of all of the *then* existing relevant facts and circumstances, and (2) what a reasonably prudent citizen of the United States would at that time have been willing to accept for the patent, license, or use in question in the light of the *then* existing relevant facts and circumstances, and (3) the amount which would have been arrived at as the result of such bargaining.

"In reaching this amount neither the value to the owner of the patent nor the value to the United States alone will control. Both will be considered; and it will be assumed that all relevant facts and circumstances *as they existed at the pertinent time* would have been duly considered and weighed by both the willing seller and the willing buyer, and that as a result they would have arrived at an amount which one would have been willing to take and the other would have been willing to give." (Emphasis ours.)

"Time of Estimating Value."

"The patent sold, the license granted, or the uncompensated use, must all be valued as of the time of the sale, the time of the grant, or the time of the use as the case may be. Values may vary—may increase or decrease—with changed conditions and the lapse of time, but fair compensation will be determined as of the time of the sale, license, or use."

In *Re Taxes Waialua Agricultural Co.*, 30 Hawaii, 755, the Supreme Court of Hawaii, discussing the valuation of property for assessment purposes said (p. 761):

"While further prospects are thus potent factors in estimating value, events subsequent to the assessment date cannot be considered for the simple reason that at the assessment date they could not have moved the intending purchaser."

In *Rieber* vs. *Butler, etc., R. Co.,* 201 Pa., 49, the Supreme Court of Pennsylvania approved the following charge to the jury in a condemnation proceeding:

"In estimating the damages in this case the jurors are to consider the matter just as if they were called upon to value the injury at the moment when the railroad condemned the land."*

In *Philadelphia Ball Club* vs. *Philadelphia,* 192 Pa., 632, the Supreme Court of Pennsylvania, in a case involving damages to abutting property arising from change of street grade, referring to a decision of the Court in *Schuylkill Nav. Co.* vs. *Thoburn,* 7 Serg. & Rawle, 411, said:

"But this court held (1) that only the difference in the actual value of the entire property before and after the injury was inflicted could be considered; (2) that the time at which this difference of value was to be estimated was immediately after the injury was completed; (3) *that no consideration could be given to circumstances occurring after the completion of the injury;* (4) that in no event could there be any recovery for loss of profits of business resulting from the enforced abandonment of the mill and its machinery; (5) that there could be no recovery for any damages which were imaginary, speculative, or remote. All of these rulings have been repeatedly sustained and enforced ever since the Thoburn Case was decided." (Emphasis ours.)

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*This charge appears in the unofficial report, 50 Atl., 311, but is not set out in the official report.

Proceeding to determine whether improvements made subsequent to the change of grade could be considered in the case before it, the Supreme Court of Pennsylvaina said:

> "As a matter of course, these works and improvements, being long subsequent to the change of grade, could not lawfully have entered into the computation of the leasehold in 1893, for the simple reason that nothing could be known about them at that time."

It has been regarded as settled, ever since the decision of this Court in *Boom Co.* vs. *Patterson,* 98 U. S., 403, 408, that the value of property taken under the power of eminent domain must be estimated in the light of the relevant facts and circumstances *existing* at the time the property was taken. *United States* vs. *Chandler-Dunbar Co.,* 229 U. S., 53, 76; *Guste* vs. *United States,* 55 F. (2d), 115, 116, C. C. A., 5; *Laflin* vs. *Chicago, W., etc., R. Co.,* 33 Fed., 415.

The attention of the Court is directed to the large number of cases holding that the market value of property at one time has no tendency to prove the market value of the same property at another time. These cases are pertinent here because the fact that the Isom invention was used commercially in the years following the alleged breach of contract tends to prove only its value in those later years.

In *Pabst Brewing Co.* vs. *E. Clemens Horst Co.,* 229 Fed., 913 (C. C. A., 9), the Court said:

> "It must be self-evident that a sale of hops made on July 9th is no evidence whatever of market value six or eight months previously, especially in view of the testimony on the part of the Horst Company that the price of hops declined rapidly after November 4th, the date of the cancellation of the contract." (p. 919).

In *Mandelbaum* vs. *Goodyear,* 6 F. (2d), 818, 824, evidence was offered in the trial Court of the financial condition of the company in October, 1920, to show the falsity of statements as to the financial condition of the Company in April, 1920, some six months prior. This evidence was excluded by the trial Court and its exclusion approved by the Court of Appeals for the Eighth Circuit as furnishing no safe guide for the jury in determining the condition of the company at the earlier date.

In that case also the trial court refused to admit quotations of Goodyear stock for a period from December 11, 1920 to October 31, 1921, as furnishing no index of the value of that stock at the time plaintiff purchased it in July, 1920, and this ruling was also approved by the Court of Appeals for the Eighth Circuit.

In *Pitman* vs. *Ball,* 140 Mo. App., 389, 124 S. W., 1082, it was held that the actual value of a mining lease was not shown by evidence of what a subsequent lease on the same tract brought on a sale four or five years later. The evidence offered was objected to on the ground that the time was too remote from the time of the organization of the corporation, and had no tendency to show the actual value of the property at the time the corporation was organized. The objection was sustained by the trial Court, and affirmed by the Court of Appeals.

In *State* vs. *Buckley,* 98 Wash., 379, 167 Pac., 1087, the Supreme Court of Washington held that a government price list of supplies issued in 1913 was not proper evidence of the value of supplies furnished prior to that time.

In *Burgin* vs. *Marx,* 158 Ala., 633, 48 So., 348, it was held by the Supreme Court of Alabama that the value of property at the time of seizure, which the plaintiff was entitled to recover, could not be shown by evidence of efforts to sell the property several months after the seizure, and the evidence was held inadmissible.

In *Myers* vs. *Bender,* 46 Mont., 497, 129 Pac., 330, it was held by the Supreme Court of Montana that it was error for the trial Court to admit evidence to show the value of land at a date subsequent to the date of the breach of contract.

In *People* vs. *Barker,* 121 App. Div., 661, 106 N. Y. S., 336, affirmed 200 N. Y., 509, 93 N. E., 378, it was held that actual results of a lease ascertained years after the date of the lease were not competent evidence of the value of the lease at its date. The Court said:

> "* * * nor do I think the actual results ascertained years after this date were competent evidence as to the value of the property on the second Monday of January, 1897. The question had to be determined as to the actual value of the interest of the lessee company in these leases at that date, and whether the value was greater or less several years afterwards has no relation as to the value of the leases at the date at which it was to be ascertained and assessed against this realtor."

In *Bowden* vs. *Achor,* 95 Ga., 243, 22 S. E., 254, action was brought to set aside a deed on the ground of inadequacy of the purchase price. It was held that evidence of the value of the land at the time of the trial, which occurred years later, was irrelevant.

In *Sequin* vs. *Plano,* 295 Pac., 179 (1931), the Supreme Court of Washington said in discussing the evidence of value of a mining lease:

> "The actual value of a mining lease is not shown by evidence of what a subsequent lease of the same tract brought at a sale four or five years later."

COURT OF APPEALS OPINION.

One further point in this connection merits consideration, namely, the statement of the Court of Appeals that

evidence of events long after the date of breach is admissible because

> "It is analogous to evidence of successful commercial use of a patent on the question of invention, and of the actual results of a physical injury for which damages are sought" (R., 85).

The fact is that there is no analogy at all and the reasons why there is no analogy go to the crux of this whole matter.

In a suit for patent infringement, the defendant often challenges the validity of the patent on the ground that the act of the patentee was not an act of invention. Defendant may assert that the patentee's act was within the expected skill of a worker in the art or that it was a retrogression from what already existed.

Thus, the issue presented is one of determining in what class the patentee's act belongs, *viz.*, that of an invention, or that of ordinary skill, or that of retrogression. Any facts, regardless of the time of their occurrence, having a direct bearing upon this issue of the class in which the patentee's act belongs would be helpful in determining that issue and therefore would be admissible. And this Court and many others have frequently held that the extent of use of the patentee's achievement and the extent to which it turned the common practice of the art do bear directly upon this issue and are therefore worthy of consideration even though they are not infallible guides.

But the market value of an invention, or a patent, or a mining prospect, or anything of the sort at a particular instant of time is a wholly different thing. It involves what the public at that instant of time thought was its value, and the amount at which it would have been bought and sold at that time. In that respect, an invention or a patent or a mining prospect is no different from a ton of steel or a bale of cotton or other

property which has different market values at different times.

In determining the class of the patentee's act, evidence of later events is admissible because those later occurrences do not tend to make a change in the class in which the patentee's act belonged from its inception and because they do serve to show what that class is. But the situation is just the reverse with respect to market value as of a certain date; occurrences of later date do effect changes of market value and they afford no index of the value prior to those occurrences.

Similarly, in personal injury cases, evidence of the actual results of the physical injury is admissible for the reason that the question to be determined is the *actual* nature, extent, and probable effect of the injury, and not what was *thought* to be the nature, extent, and probable effect at the time the injury was suffered. But where the inquiry is the market value of property at any particular time, the only question to be determined is what the public thought was its value at that time, and facts not then in existence cannot be considered for the simple reason that they could not have influenced the thought of the public on that question.

We submit, therefore, that the damages recoverable in the action at law must be measured by the market value of the Isom invention and application at the date when the alleged breach occurred; that the alleged breach occurred on September 10, 1917; that the evidence sought is of occurrences of the ten years after November, 1919, and therefore has no tendency to prove the market value of the invention and application at the date of breach; and that the bill for discovery should be dismissed on the ground that the evidence sought is not relevant to the matter in support of which it is desired.

II.

THE EVIDENCE SOUGHT TO BE DISCOVERED, IF RELEVANT, CAN BE OBTAINED IN A PRACTICALLY USEFUL WAY WITHOUT INVOKING THE ASSISTANCE OF A COURT OF EQUITY.

The chief reason for bills of discovery in aid of an action at law in Federal Courts disappeared when the disability of parties as witnesses was removed and statutory authority was given to require books and records in possession of party, and containing pertinent evidence, to be produced at the trial of an action at law. Revised Statutes, Secs. 858, 724 (28 U. S. Code, Secs. 631, 636). But it must be taken as settled by the decision of this Court in *Carpenter* vs. *Winn,* 221 U. S., 533, 539, that jurisdiction to grant discovery in aid of an action at law may still be exercised by Federal Courts in proper cases.

It is equally well settled that a bill for discovery in aid of an action at law will not be entertained if the evidence sought to be discovered can be obtained in a practically useful way by resort to the ordinary processes available at law. Discovery, like any other equitable remedy, is exceptional and the plaintiff must show that he needs more than is obtainable by modern statutory procedure. If, by using *subpoenae* and *subpoenae duces tecum* and by giving notice to produce books and records at the trial, a party can secure all that he may need, the bill will not lie. *United States* vs. *Bitter Root Development Co.,* 200 U. S., 451, 475, 479; Ex parte *Boyd,* 105 U. S., 647, 657; *Brown* vs. *Swann,* 10 Pet., 497, 501; *Durant* vs. *Goss,* 12 F. (2d), 682, 683, C. C. A., 6; *Galion Iron Works Co.* vs. *Ohio Corrugated Culvert Co.,* 244 Fed., 427, 429, C. C. A., 6; *Pressed Steel Car Co.* vs. *Union Pacific R. Co.,* 240 Fed., 135, 136, D. C., S. D., N. Y.; *Safford* vs. *Ensign Mfg. Co.,* 120 Fed., 480, C. C. A., 4.

The Court below expressly recognized that this is so, using the following language (R., 82, 62 F. [2d], 663, 664):

> "It devolves upon the party filing such a bill to show that there is real need of it, and that the desired evidence cannot be obtained in a practically useful way under Section 724."

The question presented, therefore, is whether the allegations of respondent's bill show a cause of such character that the plaintiff cannot adequately present its case without invoking the assistance of a Court of Equity.

The only evidence which the Court of Appeals held could be discovered in advance of trial of the action at law relates to the fact that Sinclair Company used Isom stills in the commercial production of gasoline and other petroleum products. There are no allegations in the bill showing that examination of such evidence in advance of trial is necessary or that it is not readily obtainable by resort to the means available at law.

The allegations of the bill with respect to such evidence amount to no more than an assertion of the bare conclusion that complainant cannot prove its damages without discovery in advance of trial (R., 4, 5), and, regarded alone, would not justify granting the relief asked.

Nor is there anything in the nature or character of the evidence held to be discoverable in advance of trial, when considered in connection with the purpose for which it is desired, to show that discovery in advance of trial is necessary to render it available and useful to respondent. This was pointed out very clearly in the dissenting opinion in the Court below. Discussing this point, Judge Wilson said (R., 89, 90; 62 F. [2d], 663, 667):

> "Certainly the power of the plaintiff to summon as witnesses the officers or employees of the defend-

ant having knowledge of the number of cracking stills operated by the defendant, with all plans and blueprints of the same, would give the plaintiff all the evidence held in the opinion to be admissible in this case, and required for opinion evidence as to the value of the application for a patent, or of the patent itself. Inasmuch as the plaintiff in this case cannot recover damages on the basis of royalties or profits gained by the use of the patent in issue, the need for preliminary examination of evidence admissible under the opinion of the court is not clear. At least, it does not appear that this is an 'exceptional case' where justice cannot be attained under an action for breach of contract by invoking section 724, or the right of the plaintiff to summon the officers and employees of the defendant as witnesses. United States vs. Bitter Root Development Co., 200 U. S., 451, 475, 479, 26 S. Ct., 318, 50 L. Ed., 550.

Surely the officers managing the affairs of the plaintiff corporation, and especially Ulysses Jenkins, who acted in an advisory capacity throughout the operation of the experimental still loaned to the defendant by the plaintiff corporation, which is engaged in the same kind of business as that of the defendant, must have knowledge of the nature of the Isom improvements from their expert knowledge of the oil cracking processes and from the application for the patent, and the patent itself, which are a part of the declaration in the action at law, and of the advance in the prior art, which was thereby made. Neither the extent of the use by the defendant nor the profits gained from the use of the improvements, it is held in the opinion, are admissible on the question of damages. The opinion also holds that the plaintiff is only entitled to show general facts about the Isom patent, not specific instances of its use. I think with its power to summon the patentee, Edward Isom, and any other officer or employee of the defendant, and to compel the production of any plans or blueprints

> or books of the defendant under section 724, R. S., the plaintiff can prove its damages if it can show a breach of its contract. The burden is not on the defendant to satisfy the court that discovery 'ought not to be ordered,' but on the plaintiff clearly to show that it ought to be invoked. I think the plaintiff has failed to sustain that burden in this case."

The bill does allege, with respect to the number of barrels of gasoline produced by Sinclair Company using Isom stills and the amount of oil charged into them, that it would be impossible for respondent to make the necessary examination of the numerous entries relating thereto if production of the pertinent books and records at the trial were compelled by subpoena duces tecum (R., 5). But the Court of Appeals held that discovery of this evidence could not be ordered in advance of trial for the reason that it is not relevant to any question now in the case. With respect to this evidence, the Court of Appeals directed that the bill for discovery should be retained so that discovery could be ordered at the trial if a question to which the evidence would be relevant should arise in the course of the trial.

Not only is retention of the bill for that purpose without precedent, as pointed out by Judge Wilson in the last paragraph of his dissenting opinion, (R., 90) *but it has no foundation in necessity.* Officers and employees of Sinclair Company may be summoned as witnesses at the trial, and under the express provisions of Section 724, Revised Statutes (28 U. S. Code, Sec. 636), production at the trial of books and records in possession of a party, which contain pertinent evidence, may be compelled "in cases and under circumstances where they might be compelled to produce the same by the ordinary rules of proceeding in chancery."

The considerations that moved the Court below to conclude that the allegations of respondent's bill, considered in connection with the nature and character of

the evidence sought to be discovered, and its purpose, sufficiently show that there is "real need" of the institution of a separate proceeding in equity for discovery, and that the desired evidence cannot otherwise be obtained "in a practically useful way," are not disclosed in the majority opinion. But since the evidence held to be discoverable in advance of trial—whether Sinclair Company used Isom stills in the commercial production of gasoline and other petroleum products—requires no preliminary sifting out or examination before trial, and since all the evidence desired, including the evidence held to be discoverable only in the event some question not now existing should arise at the trial, is readily obtainable at the trial by resort to the methods available at law, the Court must be understood as holding that these facts do not establish that respondent has an adequate remedy at law.

Such a holding is in direct conflict with the decision of the Court of Appeals of the Seventh Circuit in *Bradford* vs. *Indiana Harbor Belt R. Co.*, 300 Fed., 78, and with the *dicta* in *Ex parte Boyd*, 105 U. S., 647, 657; *Brown* vs. *Swann*, 10 Peters, 497, 501; and *United States* vs. *Bitter Root Development Co.*, 200 U. S., 451, 475, 478.

In *Bradford* vs. *Indiana Harbor Belt R. Co., supra*, a decree of the District Court dismissing on motion a bill in equity for discovery in aid of an action at law was affirmed. The action at law was for damages sustained as the result of the operation of cars and locomotives over tracks and land belonging to plaintiff. The bill for discovery alleged that the extent defendant used the property and the amount it charged and received therefor was a material issue in the action at law, that defendant kept books and had papers and documents showing those facts, and that plaintiff had no means of ascertaining those facts except through answers to the interrogatories appended to the bill. The decree affirming dismissal of the bill was based, in part, upon the

ground that "If the ascertainment of these facts is simple, and does not involve complex and voluminous accounts, it may well be that the ordinary processes will be sufficient for appellant, and that the extraordinary relief by discovery in equity was entirely unnecessary and properly denied," and that, in any event, "it is not to be presumed that the District Court would deprive him of reasonable opportunity to examine them before the trial was concluded" if defendant required production at the trial of the books and papers showing the facts by notice given under Section 724 of the Revised Statutes.

In *Brown* vs. *Swann*, 10 Pet., 497, speaking of bills for discovery in aid of an action at law, this Court said (p. 501):

> "* * * The jurisdiction of a court of equity, in this regard, rests upon the inability of the courts of common law to obtain, or to compel such testimony to be given. It has no other foundation; and whenever a discovery of this kind is sought in equity, if it shall appear that the same facts could be obtained by the process of the courts of common law, it is an abuse of the powers of chancery to interfere."

In *Ex parte Boyd*, 105 U. S., 647, it was said of bills for discovery in aid of an action at law (p. 657):

> "Now, it is of the essence of the jurisdiction of courts of equity, in bills of discovery merely, that it is in aid of the legal right; and it is a fundamental rule, prescribed for the exercise of that jurisdiction, in the words of Story (Eq. Jur., Sect. 1495), that 'courts of equity will not entertain a bill for discovery to assist a suit in another court, if the latter is, of itself, competent to grant the same relief; for in such a case the proper exercise of the jurisdiction should be left to the functionaries of the

court where the suit is depending.' It follows, then, that although at one time courts of equity would entertain bills of discovery, in aid of executions at law, because courts of law were not armed with adequate powers to execute their own process, yet the moment those powers were sufficiently enlarged, by competent authority, to accomplish the same beneficial result, the jurisdiction in equity, if it did not cease as unwarranted, would, at least, become inoperative and obsolete. A bill in equity to compel disclosures from a plaintiff or a defendant, of matters of fact peculiarly within his knowledge, essential to the maintenance of the legal rights of either in a pending suit at law, would scarcely be resorted to, unless under special circumstances, now, when parties are competent witnesses, and can be compelled to answer, under oath, all relevant interrogatories properly exhibited; nor to compel the production of books, deeds, or other documents, important as instruments of evidence, when the court of law, in which the suit is pending, is authorized by summary proceedings to enforce the same right."

It is submitted that the evidence sought to be discovered, if relevant, can be obtained in a practically useful way without invoking the assistance of a Court of Equity; that the bill cannot be sustained for the reason that respondent has a plain, adequate and complete remedy at law (Revised Statutes, Sec. 723, 28 U. S. Code, Sec. 384); and that the Court below erred in holding that the allegations of the bill warrant the discovery directed to be given in advance of trial and retention of the bill to permit further discovery at the trial of the action at law.

III.

A BILL FOR DISCOVERY IN AID OF AN ACTION AT LAW CANNOT BE MAINTAINED TO OBTAIN IN ADVANCE OF TRIAL EVIDENCE RELATING SOLELY TO THE AMOUNT OF DAMAGES RECOVERABLE.

The evidence respondent seeks to discover relates solely to the amount of damages plaintiff may recover in the event the liability of defendant is established in the action at law (Statement of Facts, *supra,* pp. 5-6).

The District Court, on the authority of *Munger* vs. *Firestone Tire & Rubber Co.,* 261 Fed., 921, C. C. A., 2 (*certiorari denied,* 252 U. S., 582) and *Loose* vs. *Bellows Falls Pulp Plaster Co.,* 266 Fed., 81, C. C. A., 2, held that the bill could not be maintained because the evidence sought to be discovered relates only to the amount of damages (R., 37, 38; 56 F. [2d], 272, at p. 275).

In *Munger* vs. *Firestone Tire & Rubber Co., supra,* the Court of Appeals for the Second Circuit affirmed a decree of the District Court for the Southern District of New York dismissing a bill of discovery in aid of an action at law for infringement of an expired patent. The bill prayed that defendants might be required to state the quantity of the alleged infringing devices sold during the existence of the patent and within six years prior to the institution of the action at law; the names of the purchasers and the selling price; to produce all books, invoices, records, vouchers, agreements, correspondence, papers, documents and other data relating thereto; and to state the gains, profits, savings, and advantages which had accrued to defendants in the premises. The remarks of the District Judge (Judge Augustus N. Hand) stating his reasons for dismissing the bill are set forth in the opinion of the Court of Appeals, as follows (p. 921):

" 'I do not think it can be said in advance of trial that the information which is sought upon this bill for discovery will not be proper matter for the consideration of the jury. I can see no sufficient reason, however, at this time to sustain the bill for discovery. There is nothing in this case which makes such a remedy peculiarly necessary. All the facts which can be elicited by a bill for discovery can be presented at the trial upon a subpoena duces tecum. Before it is possible to determine whether there has been any infringement or not, I am asked to allow an examination into the defendant's books and private affairs. This is something which should not be imposed upon the defendant, if any other reasonable mode of eliciting the desired evidence is possible. It cannot, I think, be determined, until the rest of the plaintiff's case is heard, whether he should be allowed to offer evidence of the defendant's profits. Certainly he must establish first a *prima facie* case of infringement.' "

The Court of Appeals, although finding that the evidence asked for would be "admissible to assist the jury in determining what will be a reasonable royalty, if they find the patent valid and infringed" (p. 922) held that equity does not grant discovery in advance of trial of evidence relating solely to the amount of damages recoverable in an action at law, and decided that the dismissal of the bill was proper.

In reaching that conclusion, the Court of Appeals for the Second Circuit was moved by a belief that the precedents show that the discovery equity grants in advance of trial of an action at law is limited to information tending to prove the issues in the case which plaintiff must establish to prevail and does not extend to information tending to prove elements of plaintiff's case that are subordinate or consequential to or dependent upon the establishment of liability, such as the extent of relief. It was also moved by a conviction that to allow

discovery of information relating solely to consequential matters would introduce a dangerous practice capable of great abuse. The views of the Court on these points are stated in the opinion as follows (p. 923):

> "In other words, equity grants discovery in aid of a plaintiff's right or cause of action or in aid of a defendant's defense. These are defined by the issues of the case; whereas the amount of damages is never at issue. If the plaintiff prevail upon the issues upon his cause of action, he will be entitled to nominal damages, though he prove no damage at all, and of course, if a defendant prevail upon the issues as to his defenses, no damages will be recoverable. The amount of damages is not an issue, but follows the determination of the issues in the case, and discovery is granted only in aid of the issues."
>
> • • •
>
> "A contrary conclusion would introduce a dangerous practice. All the patentee would have to do in order to completely ventilate a competitor's business would be to bring an action at law for infringement and then apply to a court of equity for discovery in aid of it."

In *Loose* vs. *Bellows Falls Pulp Plaster Co.*, 266 Fed., 81, the same Court of Appeals expressly followed the *Munger* case in holding that a bill for discovery would not lie to require a licensee under a patent license agreement to disclose the quantity of licensed material made and sold by it.

In the instant case, the majority of the Court of Appeals held that discovery in advance of trial may be granted even though the information sought bears only on the amount of damages and not upon questions of liability. In so deciding, it was expressly recognized that the decisions of the Court of Appeals for the Second Circuit in the *Munger* case and the *Loose* case are

decisions to the contrary. Judge Morton, in the majority opinion said (R., 83, 62 F. [2d], 663, at p. 664):

> "The next point is whether such bills may be brought to obtain evidence relevant only on the amount of damages. In *Munger* vs. *Firestone Co.*, 261 Fed., 921 (C. C. A., 2), and *Loose* vs. *Bellows Falls Pulp Plaster Co.*, 266 Fed., 81 (C. C. A., 2), it was decided that bills for discovery could be used only to obtain facts bearing on the 'issues,' i. e., on questions of liability, and not to obtain evidence of damage. The opposite result was reached in *Guyot* vs. *Hilton* (C. C.), 32 F., 743, cited with approval in *Carpenter* vs. *Winn, supra,* and in *Colgate* vs. *Compagnie Francaise du Telegraphe de Paris a N. Y., supra,* where apparently no such distinction between liability and damages was suggested."

Judge Wilson, in his dissenting opinion, said (R., 87, 62 F. [2d], 663, at p. 666):

> "The only cases in which the issue of whether a bill of discovery was proper to obtain evidence solely on the question of damages was clearly before the court are: *Munger* vs. *Firestone Tire & Rubber Co.*, 261 F., 921, and *Loose, et al.,* vs. *Bellows Falls Pulp Plaster Co., et al.,* 266 F., 81. In each of these cases the Circuit Court of Appeals for the Second Circuit refused to sustain such a bill, and in the Munger case a writ of certiorari was denied by the Supreme Court, 252 U. S., 582."

The Court below rejected the doctrine of the *Munger* case on the ground that, although equity will not grant discovery of information relating solely to damages where the consequential question of damages can be postponed until the issues affecting liability are determined, the weight of authority in this country and in England supports the view that discovery will be granted in ad-

vance of trial in cases where plaintiff will be compelled to present all his evidence, both on liability and damages, at the same time.

The assertion in the opinion of the Court below that a result opposite to that in the *Munger* case was reached in *Guyot* vs. *Hilton*, 32 Fed., 743, and in *Colgate* vs. *Compagnie Francaise*, 23 Fed., 82, is not borne out by examination of those decisions.

In *Guyot* vs. *Hilton, supra*, a motion under Section 724, Revised Statutes, to require production of books and records in advance of trial was denied on the ground that the statute authorized an order to produce only at the trial. The Court indicated that the proper practice to secure inspection in advance of trial was to bring a bill for discovery. There is nothing in the case to indicate that discovery would be granted or that the information sought related wholly or even in part to the question of damages.

In *Colgate* vs. *Compagnie Francaise, supra*, the bill assigned as grounds for discovery that the evidence was needed to establish infringement of the patent in suit and the amount of damages recoverable therefor. Discovery was granted, not on the ground that the plaintiff was entitled to discovery as to damages, but upon the ground that the plaintiff might otherwise be unable to prove the fact of infringement. Discussing the necessity for discovery, the Court said (p. 85):

> "The case made by the present bill is one where, if the defendant has appropriated the complainant's invention, it would be obviously difficult, if not impossible, to prove the fact unless an inspection were granted."

The Court below cited *McKinnon-Young Co.* vs. *Stockton*, 55 Fla., 708; *Wells* vs. *Holman*, 115 S. Car., 443, 106 S. E., 224, and *Sherwood Bros., Inc.*, vs. *Yellow Cab Co.*,

283 Pa., 488, 129 Atl., 563, in support of its assertion that the weight of authority as shown by state Court decisions supports its view rather than the doctrine of the *Munger* case.

In *Wells* vs. *Holman, supra,* decided under the authority of Sec. 427 of the South Carolina Code, production of defendant's books was ordered to enable plaintiff to ascertain the net profits made from certain farming operations which plaintiff was entitled to under a contract. The contract and plaintiff's right to the profits made were admitted and the only question in the case was the amount of the profits.

In *Sherwood Bros., Inc.,* vs. *Yellow Cab Co., supra,* decided under the authority of Pa. St., 1920, Sec. 4563, discovery of the extent of defendant's fuel purchases outside of Philadelphia was allowed in aid of an action at law for damages for breach of a contract to buy all the motor fuel defendant required in its business in Philadelphia. The distinction between liability and damages which controlled the decision in the *Munger* case was not raised or discussed.

McKinnon-Young Co. vs. *Stockton, supra,* was a proceeding by receivers in the nature of contempt proceedings for trespass on land. Plaintiff asked discovery of the amount of turpentine and other naval stores taken from the land. Discovery was allowed, and the Court ruled that the injury done the property might be determined before the liability of the defendant was established.

The Court of Appeals, in discussing the English authorities, referred to the case of *Saunders* vs. *Jones* (1877), L. R., 7 Ch., 435 and stated that it "fully covered" the present case. *Saunders* vs. *Jones* involved the propriety of interrogatories designed to elicit the total amount of sales made by defendant during the period for which plaintiff claimed remuneration in an action for wrongful dismissal from his position as manager of

defendant's business. Defendant was ordered to answer the interrogatories.

This decision, however, cannot be taken as fully covering the present case, for in *Schreiber* vs. *Heymann*, 63 L. J. Q. B., 749 (1894), it was decided that a Court will not, in advance of trial, order the production of documents which would merely assist the plaintiff to establish his damages in an action at law for wrongful dismissal as defendant's sole agent, where the documents did not bear on the question of defendant's liability. In deciding the case, Pollock, B., said:

> "If an inspection of the books had been calculated to assist the plaintiff in establishing agency as well as in ascertaining the amount of damages, I think that upon that ground it is possible that discovery might have been granted. In this case, however, there does not seem to be any dispute upon the question of agency, and I think therefore that the appeal must be allowed."

The distinction drawn, it will be noted, is precisely that held to be controlling by the Court of Appeals for the Second Circuit in the *Munger* case.

The Court below also cited passages from textbooks suggesting that while discovery of information bearing only on damages should not be granted in advance of trial where the questions of liability and damages are severable, the rule ought to be otherwise where both questions will come on for trial simultaneously. Adopting this suggestion, the Court below said:

> "We think this much the sounder view. Damages are an important element in litigation; they are the reason why an action is brought. *There is no good reason why discovery should not be ordered as to damages, except that if the defendant wins on liability the evidence on damages will go for noth-*

ing. This is always true of evidence of damages in actions at law; it always goes for nothing if the defendant prevails. *But this has never been thought a sufficient reason for splitting a jury trial;* and it does not seem to us a sufficient reason for refusing discovery" (R., 84). (Emphasis ours.)

It is true that evidence of damages always goes for nothing in actions at law where the defendant wins on liability. This is bad enough, but it is not the reason urged against granting discovery in advance of trial of information relating solely to damages. The objection is that such discovery would enable one who has no evidence to support a case, or one who has no intention to present a case, to completely ventilate a defendant's business affairs simply by bringing an action at law and then applying to a court of equity for discovery in aid of his claim of damages. Speaking of the danger of this unfair and oppressive result, the Court of Appeals for the Second Circuit said:

> "A contrary conclusion would introduce a dangerous practice. All a patentee would have to do in order to completely ventilate a competitor's business would be to bring an action at law and then apply to a court of equity for discovery in aid of it."

The same matter is discussed in "*Principles and Practice of Discovery*" by Bray. In the chapter on consequential discovery, the author says:

> "It is obvious that in some cases it might be extremely prejudicial to a defendant if he were compelled to give discovery of this nature before the determination of the preliminary issue or matter in question. If a denial of the party's interest by his opponent were not effectual to stay necessity of giving consequential discovery, the party might get discovery of all the particulars of any transac-

> tion however secret and important with which he had no manner of concern merely by introducing into his pleadings the false allegation that he had an interest therein: *Mendizabel* vs. *Machado*, 1 Sim., page 78: and see *Smith* vs. *Beaufort*, 1 Ha., page 523: and *ante*, page 14, and *post*, pages 256-257. It would be a monstrous thing that a man by merely alleging that he had a share in the concern, which allegation has been denied and has not been established, and whilst it was doubtful whether it could be established, could get the accounts of a defendant's private business and of his dealings with other people: James, L. J., in *G. W. C. Co.* vs. *Tucker*, L. R., 9 Ch., page 378."

The safe and fair way to render available to a plaintiff evidence in possession of defendant relating solely to damage and at the same time protect the defendant against unnecessary disclosure of his business affairs was pointed out by the Court of Appeals for the Second Circuit in *Munger* vs. *Firestone Tire & Rubber Co.*, 261 Fed., 921, and by the Court of Appeals for the Seventh Circuit in *Bradford* vs. *Indiana Harbor Belt R. Co.*, 300 Fed., 78. In the *Munger* case, the Court said (p. 923):

> "The trial Judge will have to determine when he shall have made out a sufficient case to justify an examination of the defendant's books, papers, etc."

In *Bradford* vs. *Indiana Harbor Belt R. Co.*, answering the contention that plaintiff would not have time to make a proper examination of the desired evidence if the question whether he was entitled to have them was postponed until he had made out a sufficient case at the trial to justify his right of examination, the Court said (p. 81):

> "it is not to be presumed that the district court would deprive him of reasonable opportunity to examine them before the trial was concluded."

The propriety and justice of safeguarding defendants against premature disclosure of their affairs is recognized by the Courts in administering the remedy provided by Section 724 of the Revised Statutes. Under that statute, while the application for an order to produce the desired books and papers may be made on notice before trial, Courts do not require their production for inspection by the plaintiff until such time after the trial begins as the Court shall be able to determine the necessity for the evidence. *Planters' Oil Mill & Gin Co.* vs. *A. K. Burrow Co.*, 18 F. (2d), 107, D. C., E. D., Mississippi; *Iasigi* vs. *Brown*, 1 Curt. C. C., 401, F. Cas. No. 6,993 (quoted with approval in *Carpenter* vs. *Winn*, 221 U. S., 533, 544, 545).

We submit that the doctrine of the *Munger* case, limiting the right to discovery in advance of trial to evidence relating to questions of liability, is supported by long established chancery practice and operates to secure defendants against unwarranted intrusions into their business affairs without depriving plaintiffs of any right or opportunity to prove damages by means of evidence which is admissible and which is exclusively within the knowledge or possession of defendants.

CONCLUSION.

We venture to suggest that the decision of the Court of Appeals, which we believe to be erroneous, and much of the discussion which may have had some part in leading the Court to that decision, developed from thinking of the pending action at law as either *sui generis*, or as something akin to a suit for patent infringement, involving legal conceptions peculiar to inventions, patent applications and patents.

The pending action at law should, we submit, be recognized for what it is, namely, an action for breach of contract for failure to deliver certain specified property.

As such it should be governed by the fundamental rules which from the earliest dates have governed such actions. The fact that the property happens to be an unpatented invention and patent application should not change the fundamental rules governing such actions.

One of these fundamental rules is that the damages recoverable for breach of a contract to deliver property are represented by the market value of the property at the date when delivery should have been made. Had the property been delivered as required, that is, had there been performance instead of breach, the recipient of the property could have sold it the next day, in which case he would have received only its market value at that date. He is not to profit from the breach but is only entitled to be reimbursed, and thereby to be put in as good a position as if there had been performance instead of breach.

Application in this case of the basic principle of contract law referred to is determinative of this controversy. Once it is decided that the plaintiff in the suit at law can recover only the value the undelivered property had on the date when it was not but should have been delivered, it follows that the requested discovery must be denied, for discovery is asked only of events of many years subsequent to that critical date.

On the other hand, if a new rule be adopted, that the value of the undelivered property may be fixed by reference to its history through the succeeding years, a host of new possibilities is presented. What of the mining prospect which had a considerable market value at the date when delivery was due, so that if delivered it could have been sold for a large sum, but which later events showed contained only fool's gold and was salable only as farm land? And what of the invention which went into extended commercial use for some years after the delivery date and then was shown to be valueless by

being superseded by another invention which had been available all the time and was not used only because its superior value was not appreciated?

And what of this plaintiff, which first brought its suit for the remedy of specific performance to which it was not entitled? Is it to be allowed to profit by the mistake it made? Had plaintiff originally in 1921 brought its suit at law for breach of contract, instead of in equity for specific performance, as the Court of Appeals has since said it should, this controversy would have been determined long prior to most of the uses of the Isom stills about which plaintiff now wants discovery. Is plaintiff to have the benefit of the facts about the use of the stills to raise the value of the property alleged to have been withheld, as a reward for having sued originally for relief to which it was not entitled, with the result that it only got started on its present course some twelve years after beginning this litigation?

We trust that the Court will reaffirm by an authoritative ruling in this case the ancient and established rule that damages for failure to deliver property are measured by the market value of the property at the date on which delivery should have been made, and that events subsequent to that date have no bearing on that value however much they may bear on the value at other times. In that event, the requested discovery would have to be denied.

But the record before the Court presents two other issues of a degree of importance which makes determination of them most desirable.

As to the date of the alleged breach, the Courts before which this case has come have differed, and the finality of this Court's decision is sought for guidance in the further conduct of this litigation; also, this Court's decision on this point is highly desirable because of its bearing upon the rights of employers and employees gen-

erally in connection with inventions and applications for patents. We submit that the date of the breach should be fixed as the time when the Isom application first had existence and was capable of assignment.

As to discovery in advance of trial of evidence relating solely to damages, we submit that the sound rule is that a defendant should not be required to produce evidence regarding its business affairs on the mere assertion by plaintiff in its pleading, denied by defendant in its answer, that it has a cause of action; but that such disclosure should be required only at the trial after the plaintiff in the orderly presentation of its case has established, *prima facie*, a right to relief.

Respectfully submitted,

DEAN S. EDMONDS,
FRANK E. BARROWS,
CHARLES W. RILEY,
Counsel for Petitioner.

APPENDIX.

"Chicago, Illinois,
October 2nd, 1916.

Cudahy Refining Company,
Chicago, Illinois.

Gentlemen:

Pursuant to our conversations and conferences relative to the Jenkins Process of treating petroleum, it is understood that we are to loan you our experimental still to be shipped to Coffeyville, Kansas, so that your experts and engineers may have apparatus immediately available upon which to carry out experiments upon the Jenkins improved process upon your petroleum products.

It is further understood that Mr. Ulysses S. Jenkins, of Chicago, will go to Coffeyville, Kansas, to install the still and will remain in an advisory capacity throughout the entire course of experimental work carried on by your experts, Mr. Jenkins' salary being $150.00 per month, and all expenses, including railroad expenses incurred by him in making trips to Chicago, rendered necessary by said experimental work, this to be paid by you.

It is further definitely understood and agreed between us that any improvements, whether of a mechanical nature, or in the process, which may be developed as the result of the work of your engineers and experts in familiarizing themselves with the Jenkins apparatus and process, shall accrue to the Jenkins Petroleum Process Company, and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and to assign said applications, together with the improvements they are in-

tended to protect, to the Jenkins Petroleum Process Company. This provision is of course rendered necessary by the fact that in the development of a process of this character, and particularly in its application to particular oils, many short cuts and improvements necessarily are developed by the experts entrusted with the carrying out of the process, which belong by right to their employer, and under the circumstances here involved, of course, to the Jenkins Petroleum Process Company, inasmuch as they are loaning you not only their experimental still, but also the services of Mr. Jenkins, the inventor himself.

It is further understood that all expenses in connection with the transportation of the still and incidental expenses shall be paid by you, and that as soon as your engineers and experts have carried on sufficient work with this still to thoroughly familiarize themselves with the process and discover the best conditions under which to apply the process to your petroleum products, the still will be returned in good condition to us, and that Mr. Jenkins' salary will continue from the time the still is first shipped to Coffeyville, until such time as it is returned.

Yours very truly,

JENKINS PETROLEUM PROCESS COMPANY,
By A. G. Maguire,
President.

This letter and agreement accepted
and approved.

CUDAHY REFINING COMPANY,
By W. H. Isom, Pres."

SINCLAIR REFINING COMPANY, *Petitioner,*

vs.

JENKINS PETROLEUM PROCESS COMPANY, *Respondent.*

No. 752.

ADDENDA TO BRIEF FOR PETITIONER.

Effect of Denial of Specific Performance.

Denial of specific performance of a contract to transfer or deliver property precludes recovery of profits made from the use of the property, because recovery of profits can only proceed upon the ground that plaintiff is at least the equitable owner of the property. *Kennedy v. Hazelton,* 128 U. S. 667, 672.

Denial of specific performance limits recovery in a subsequent action at law for breach of the contract to the value of the property at the time when it ought to have been conveyed, and precludes recovery for gains or profits prevented by the withholding of the property. *Terry v. Michalek,* 319 Mo. 219, 3 S. W. (2d.) 701; *Combs v. Scott,* 76 Wis. 662; *Crane v. Miller,* 240 Mich. 357; *Livesley v. Johnston,* 48 Ore. 40; *Dustin v. Newcomer,* 8 Ohio 49; *Cummings v. Roth,* 10 Cal. App. 144, 101 Pac. 434; *Grosso v. Sporer,* 123 Misc. N. Y.) 796, 206 N. Y. Supp. 227.

Subsequent Events as Evidence of Value.

The value of property at any given time cannot be shown by facts and circumstances occurring subsequently. *Ithaca Trust Co. v. United States,* 279 U. S. 151. In this case Mr. Justice Holmes said (p. 155):

> "But the value of property at a given time depends upon the relative intensity of the social desire for it at that time, expressed in the money that it would bring in the market. * * * Like all values, as the word is used by the law, it depends largely on more or less certain prophecies of the future; and the value is no less real at that time if later the prophecy turns out false than when it comes out true. * * * Tempting as it is to correct uncertain probabilities by the now certain fact, we are of opinion that it cannot be done, * * *"

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CHARLES ELMORE CROP
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No. 752.

SINCLAIR REFINING COMPANY,
Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF FOR RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

C. STANLEY THOMPSON,
PHILIP G. CLIFFORD,
FREDERICK SCHAFER,
Of Counsel for Respondent.

March 28, 1933.

PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No. 752.

SINCLAIR REFINING COMPANY,
Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF FOR RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

I.

STATEMENT OF THE CASE.

The petition of the Sinclair Refining Company prays that a writ of certiorari issue to review a decision and decree of the Circuit Court of Appeals for the First Circuit which sustained the right of the respondent to maintain a bill in equity for the discovery by the petitioner of facts which rest peculiarly within the knowledge of the petitioner and of documents in the possession of the

petitioner, which are relevant to the support of the respondent's case in an action at law which is pending and is undetermined on the law side of the United States District Court for the District of Maine, the Court in which the bill in equity for discovery was filed.

The action at law in aid of which the bill in equity for discovery was filed originated in a suit in equity which was instituted on January 21, 1921, when the respondent filed a bill of complaint to secure specific performance of a written contract between the respondent and the petitioner's predecessor, the Cudahy Refining Company. (R. 40) That contract, dated October 2, 1916, (R. 12) related to the loan by the respondent to the petitioner of an experimental still for cracking petroleum oils to produce gasoline, and to advice and assistance to be given to the petitioner's experts in connection with further experimental work to be carried on with reference to a process for treating petroleum oils which had been invented by Mr. Ulysses S. Jenkins. The provisions of the contract of October 2, 1916, on account of which relief was sought by the original bill in equity, and on account of which damages now are claimed in the declaration in the pending action at law, are as follows:

> "It is further definitely understood and agreed between us *that any improvements, whether of a mechanical nature, or in the process*, which may be developed as the result of the work of your (Cudahy Refining Company's) engineers and experts in familiarizing themselves with the Jenkins apparatus and process, *shall accrue to the Jenkins Petroleum Process Company*, and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and *to assign said applications, together with the improvements they are intended to protect, to the Jenkins Petroleum Process Company.* * * *" (Italics ours,)

The bill of complaint in the original suit in equity for specific performance and the declaration in the pending action at law for damages for a breach of the contract of October 2, 1916, each alleges full performance by the respondent of its obligations under the contract of October 2, 1916; the use of the experimental still and of the services of Mr. Jenkins by the petitioner, and particularly by Edward W. Isom, an employee and an officer of the petitioner, and then alleges that from the knowledge acquired thereby and from the suggestions made by Mr. Jenkins, Edward W. Isom made certain improvements in and adaptations of the Jenkins apparatus and process; that he made such improvements and adaptations the subject matter of an application for United States Letters Patent; that Letters Patent of the United States Number 1,285,200, dated November 19, 1918, thereafter issued to Edward W. Isom on that application, and that that patent was assigned to the petitioner, which, after due demand therefor, refused to assign it to the respondent.

After a hearing and the introduction of evidence on behalf of both parties, the District Court held that a case for specific performance had not been established. (32 F. (2d) 247) The opinion of the Circuit Court of Appeals for the First Circuit on the appeal of the respondent from the decree of the District Court in the original suit in equity (32 F. (2d) 252) stated:

> "That Isom made his invention from what was disclosed by Jenkins rather than from knowledge gained from his own experimentation, the prior art, and from all that had been disclosed by prior patents, is not in our opinion so clearly shown as to ground a decree for specific performance." (p. 256)
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> * * * * * * * * *
>
> "To sustain a decree of specific performance the contract not only should be clear and unambiguous, but the evidence in relation to acts alleged to have been done under it and necessary to give it effect should be clear and convincing.

> "Failing such evidence, the parties must be left to their equitable or legal remedies; the bill must be dismissed without prejudice and without costs." (p. 257)

In its mandate, however, the Circuit Court of Appeals for the First Circuit modified its own opinion and the decree of the District Court, and ordered, adjudged and decreed that:

> "The decree of the District Court is affirmed so far as it denies specific performance of the contract of October 2, 1916. But so far as it dismisses the bill as to other issues involved, it is reversed; and as to those issues the case is remanded to the District Court with directions to transfer it to the law side of the court, where within thirty days from the date of this order the plaintiff may have leave to amend its bill of complaint into an action at law for breach of the contract of October 2, 1916. No costs are to be allowed to either party." (R. 77)

In accordance with that mandate and with an order of the United States District Court for the District of Maine transferring the cause to the law side of that Court, the declaration in the pending action at law in aid of which the bill in equity for discovery was brought, was filed on August 28, 1929. The petitioner's motions to strike out the declaration and to dismiss the action were argued and were denied. (38 F. (2d) 820) Thereafter, the petitioner's motion for further and better particulars and the respondent's motion for leave to amend the declaration by adding a third count were heard by the Court and the motion to amend was granted. (R. 13) Thereafter, the petitioner's brief statement of the special matters of defense to be used under the general issue pleaded were filed and issue was joined by the respondent on the petitioner's pleas. (R. 15)

The bill in equity for discovery which was filed by the respondent on September 8, 1931, alleges that the respon-

dent cannot safely proceed to the trial of the pending action at law and cannot prove with any degree of accuracy and completeness at the trial of said action at law the damages which the respondent has suffered by reason of the breach of the contract of October 2, 1916, without the discovery by the petitioner of facts and of documents in accordance with the prayer of that bill.

Briefly stated, the declaration in the pending action at law in aid of which the bill in equity for discovery herein was filed by the respondent, alleges a breach by the petitioner of the contract of October 2, 1916, in that the petitioner, regardless of its obligations under and in accordance with the terms of said contract, did not cause Edward W. Isom to assign to the respondent his application for Letters Patent on which Letters Patent of the United States Number 1,285,200 thereafter issued, and in that the petitioner did not turn over to or cause to accrue to the respondent the improvements of a mechanical nature and in the process which are described in said Letters Patent, and for the protection of which said application for Letters Patent was filed, and the declaration prays damages for that breach of the contract.

The bill in equity for discovery alleges that the respondent cannot prove at the trial of the pending action at law, the damages which the respondent has suffered by reason of the petitioner's breach of the contract of October 2, 1916, without

(a) The full discovery by the petitioner as to whether or not it constructed and operated any cracking still or cracking stills as mentioned and defined;

(b) The full discovery by the petitioner as to the number, if any, of such cracking stills, the date each such cracking still was constructed and the period of time each such cracking still was operated by the petitioner;

(c) An inspection of the drawings showing the particular character, type and construction of any such cracking still or cracking stills constructed, used and operated by the petitioner;

(d) The quantity of gasoline (in barrels) and of other allied petroleum products resulting from the cracking of petroleum oils in any such cracking still or cracking stills operated by the petitioner; and

(e) The amount of petroleum oils charged into any such cracking still or cracking stills constructed and operated by the petitioner.

The desired discovery relates to the period of time starting with the 19th day of November, 1919, and extending down to the date of the filing of the declaration in the pending action at law.

The bill in equity for discovery herein alleges in paragraph 7 that the facts sought to be elicited from the petitioner are peculiarly and exclusively within the knowledge of the petitioner; that the documents sought to be inspected are exclusively and solely in the possession of the petitioner; that said facts and said documents are material to the support of the respondent's case as stated in the declaration in the action at law, and that said facts and said documents are not available to the respondent without the assistance of a Court of Equity. (R. 7) The bill then further alleges that the production of the books, records and papers of the petitioner in response to a subpoena *duces tecum* would not enable the respondent safely to prosecute its action at law by reason of the fact that the entries and notations in such books, records and papers are so numerous and so complicated that the respondent, its attorneys and other representatives, could not possibly ascertain definitely in a practical and correct manner and within any reasonable length of time, and especially not within the length of time which will be required for the trial of said

action at law, either the amounts of petroleum oils charged into the cracking stills concerning which discovery is sought, or the production of gasoline or of allied petroleum products resulting from the cracking of petroleum oils in such cracking stills. (R. 8)

The District Court sustained the petitioner's motion to dismiss the bill in equity for discovery. (56 F. (2d) 272)

On appeal, the decree of the District Court was reversed by the Circuit Court of Appeals for the First Circuit (62 F. (2d) 663), which held:

> 1. That a bill for discovery may be maintained in the Federal Courts if the party filing such a bill shows that there is real need of it and that the desired evidence cannot be obtained in a practically useful way under Rev. Stat., Sec. 724, (28 U. S. C., Sec. 636); that the decision in *Carpenter v. Winn*, 221 U. S. 533, rather enlarges the field of bills for discovery, and that it is highly desirable that such evidence be sifted out before the jury trial. (p. 664)
>
> 2. That bills for discovery may be brought to obtain evidence relevant only on the amount of damages. (In this connection the Circuit Court of Appeals for the First Circuit disagreed with the statements of the Circuit Court of Appeals for the Second Circuit in *Munger v. Firestone Tire & Rubber Co.*, 261 Fed. 921, and in *Loose v. Bellows Falls Pulp Plaster Co.*, 266 Fed. 81, to the effect that bills for discovery can be used only to obtain facts bearing on the "issues," *i. e.*, on questions of liability, and not to obtain evidence of damage, on the ground that that statement is contrary to the weight of the American decisions and to the English law. (p. 664))
>
> 3. That evidence as to the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art, are facts which, with other relevant circumstances, may be introduced and may be supplemented by opinion evidence of value to

establish the value of an application for a patent, which is a thing *sui generis*, and which has no market value in the strict sense of that term. (p. 665)

4. That evidence of the profits, if any, which the Sinclair Company made by using the Isom invention would have no relevancy on the question of damages. (p. 665) (However, no one of the interrogatories which are incorporated in the respondent's bill in equity for discovery, seeks to obtain any information or data in any way relative to any *profits* which the petitioner may have made, and the respondent never has contended that the petitioner's profits are the measure of the respondent's damages, or even that any evidence as to petitioner's profits would be relevant and material to the issue of the amount of the respondent's damages.)

5. That the contract of October 2, 1916, may be regarded as broken when the petitioner finally disabled itself from performing it, and that on the facts alleged, the contract appears to have been broken on the date when the application became merged into the patent. (p. 665)

In accordance with the opinion of the Circuit Court of Appeals for the First Circuit, the respondent is entitled to discovery from petitioner of general facts showing the commercial utility of the Isom invention in the art or industry to which it relates up to the time of trial, as material and relevant evidence on the inherent character and place of the invention in question; respondent is not entitled to discovery as to the *precise extent* to which petitioner made use of the Isom invention, as such evidence is not material on the respondent's case in chief, however, should petitioner deny the utility and commercial success of the Isom invention, evidence of petitioner's use of it might be highly significant, and under those circumstances the respondent would be entitled to discovery of them.

II.

THE DECISION OF THE CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT IS NOT NECESSARILY IN CONFLICT WITH THE DECISION OF THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT IN THE MUNGER CASE.

The decision of the Circuit Court of Appeals for the Second Circuit in *Munger v. Firestone Tire & Rubber Co.*, 261 Fed. 921, affirming the decree of the District Court dismissing the bill of discovery in that suit, probably was correct in accordance with certain well settled principles of equity. Those well settled principles, however, were not in any way pertinent to or involved in the decision of the Circuit Court of Appeals for the First Circuit which sustains the respondent's right to the discovery which it seeks to obtain by the interrogatories incorporated in its bill in equity for discovery.

Very little attention is given in the opinion in the *Munger Case* to the character of the evidence which the plaintiff-petitioner in that case sought to obtain by his bill in equity for discovery. However, it clearly is apparent that that evidence is entirely different in its character and in its scope from the evidence which the respondent herein seeks to obtain by answers to its interrogatories. Those interrogatories require only the production of summarized data relative to the use and to the extent of the use by the petitioner of the inventions and of the improvements which the respondent claims should have been assigned to it by the petitioner in accordance with the provisions of the contract of October 2, 1916, and an inspection of the drawings of the cracking stills in which the petitioner is alleged to have used and to have practiced those inventions and improvements.

The discovery sought by the plaintiff-petitioner in the *Munger Case* was entirely different in character. That discovery related almost entirely to the most minute and con-

fidential details of the defendant-respondent's business; to the names of the defendant-respondent's customers, and to the selling prices of the defendant-respondent's products, and it required the production of all of defendant-respondent's books, invoices, records, vouchers, agreements, correspondence, papers, documents and other data, relating to those matters. It is apparent that the discovery sought by the plaintiff-petitioner in the *Munger Case* related almost exclusively to the profits made by the defendant-respondent out of the business done by it in alleged infringement of the patent in suit, and that that discovery sought only the production of the intimate details of the defendant-respondent's business which might tend to establish the amount of such profits. The fact that that discovery sought only to obtain evidence relative to the profits made by the defendant-respondent is emphasized by the brief for the respondent in opposition to the petition for a writ of certiorari in the *Munger Case*.

No evidence whatsoever relative to any profits made by the petitioner through the use of the inventions and of the improvements which the respondent herein claims should have been assigned to it by the petitioner in accordance with the provisions of the contract of October 2, 1916, is sought by the respondent's bill in equity for discovery in this suit. The opinion of the Circuit Court of Appeals for the First Circuit furthermore expressly states:

> "The profits if any which the Sinclair Company made by using the Isom invention have no relevancy on the question of damages, and no discovery should be ordered in respect to them. The plaintiff is not suing as the equitable owner of the patent. Our previous decision precludes it from that position. Jenkins Petroleum Process Co. v. Sinclair Ref. Co. (D. C.), 32 F. (2d) 247."

The petition for a writ of certiorari in the *Munger Case*, therefore, might have been denied on the ground that none

of the evidence sought by the bill of discovery therein was relevant or material to establish the damages, if any, recoverable in the action at law in aid of which discovery was sought, because the profits made by the defendant-respondent in that case would not have been the measure of, or evidence tending to establish, the amount of the damages sustained by the plaintiff-petitioner on account of the alleged infringement.

The respondent's brief in opposition to the petition for a writ of certiorari in the *Munger Case* stated that the *only* proposition of law decided by the Court of Appeals upon the basis of which it rightly affirmed the District Court in dismissing the bill for discovery, was that the petitioner therein could not, in aid of an action at law, have discovery of facts material only to the question of damages, until after the petitioner should have established a cause of action giving him a right to the relief asked.

The respondent's brief in opposition to the petition for a writ of certiorari in the *Munger Case* stated the facts and quoted portions of the opinions in *Rawes v. Chance*, 7 Reports Patent Cases, 275, 281, *Parker v. Wells*, L. R. 18 Ch. Div. 477, *Fennessy v. Clarke*, 37 Ch. Div. 184, and *De La Rue v. Dickinson*, 3 K. & J. 288, and then stated:

> "From this review of the English authorities it is clear that until after the plaintiff has *prima facie* established his *title to the relief claimed*, a bill for discovery of facts material only to the question of damages is premature and will be denied. * * *"

The respondent's brief in the *Munger Case* next stated the facts and quoted parts of the opinions in *United States v. Bitter Root Co.*, 200 U. S. 451, and *Eibel Process Co. v. Pennington-Martin Co.*, 197 Fed. 760, and then stated:

> "The above are the only references we have been able to find in the Federal Courts relevant to the proposition for which the petitioner here contends. They,

and the abundance of English precedents, are unquestionable authority for the action of the Court of Appeals in affirming the District Court in dismissing the bills for discovery on the ground that they are premature and that the defendant should not be compelled to submit to an examination as to profits, before a *prima facie* case has been made as to the defendant's liability. * * *"

In accordance with the principles urged by the respondent in its brief in opposition to the petition for a writ of certiorari in the *Munger Case*, the Circuit Court of Appeals for the First Circuit properly held that the respondent herein is entitled to discovery in accordance with the opinion filed by the Court.

The respondent already has made a *prima facie* case which entitles it to the verdict of the jury on the issues in the pending action at law in aid of which discovery is sought, namely, on the issues as to whether or not the petitioner has breached the contract of October 2, 1916, as alleged in the declaration, and, if so, as to the amount of the damages which the respondent has suffered on account of that breach. All preliminary questions in that action at law have been heard and have been determined. (38 F. (2d) 820) The petitioner has filed its pleas to the respondent's declaration in the action at law, and the respondent has joined issue on those pleas, and, therefore, that action at law certainly, without any further proceedings therein, next is about to come on for trial to a jury on those two issues as to whether the petitioner is liable to the respondent on account of a breach of the contract of October 2, 1916, and, if so, as to the amount of the damages to which the respondent is entitled.

The evidence taken in the original suit in equity for specific performance of the contract of October 2, 1916, is evidence in the pending action at law. 28 U. S. C. Sec. 397, (Judicial Code, Sec. 274(a)). The Circuit Court of Appeals for the First Circuit could not have remanded the original

suit in equity to the District Court with instructions to permit the respondent to amend its bill in equity for specific performance of the contract of October 2, 1916, into a declaration at law for damages for the breach of that contract, without holding affirmatively that the evidence introduced in the original suit in equity makes a *prima facie* case which now entitles the respondent to go to the jury even if no other or additional testimony be introduced in the pending action at law. The respondent, therefore, has satisfied the condition which the respondent in the *Munger Case* claimed is a prerequisite to the right to discovery. Because of the difference between the facts in the two cases, the *decision* of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* does not conflict with the *decision* of the Circuit Court of Appeals for the First Circuit herein, because the respondent herein already has established a *prima facie* case which entitles it to have its case submitted to the jury.

The fact that the jury will not consider the question of damages unless and until it has found in favor of the respondent on the preliminary question of the liability of the petitioner to the respondent, does not alter the fact that in an action at law to a jury the preliminary question of liability and the consequential question of damages are issues which must be tried together and which must be submitted together to the jury. There is no possible proceeding by which the verdict of the jury to which the pending action at law will be submitted, first could be secured on the question whether the Sinclair Company breached the contract of October 2, 1916, by refusing to assign the Isom application and patent to the Jenkins Company; by which the respondent then could have an opportunity to develop the evidence necessary to prove the amount of the damages by filing a bill of discovery, and by which there finally would be a second presentation to the jury on the question of the amount of the damages to be awarded to the respondent.

III.

THE STATEMENTS IN THE OPINION OF THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT IN THE MUNGER CASE TO THE EFFECT THAT DISCOVERY NEVER IS ALLOWED RELATIVE TO THE AMOUNT OF THE DAMAGES RECOVERABLE ARE OPPOSED TO THE WEIGHT OF AUTHORITY.

The opinion below (R. pp. 86-87) discusses and refuses to follow the statement in the opinion of the Circuit Court of Appeals for the Second Circuit in *Munger v. Firestone Tire & Rubber Co.*, 261 Fed. 921, that:

> "In other words, equity grants discovery in aid of a plaintiff's right or cause of action or in aid of a defendant's defense. These are defined by the issues of the case; whereas the amount of damages is never at issue. If a plaintiff prevail upon the issues upon his cause of action, he will be entitled to nominal damages, though he prove no damage at all, and of course, if a defendant prevail upon the issues as to his defenses, no damages will be recoverable. The amount of damages is not an issue, but follows the determination of the issues in the case, and discovery is granted only in aid of the issues." (p. 923)

As stated hereinbefore, the statement quoted above was not necessary to the decision which sustained the decree of the District Court dismissing the bill of discovery. The above statement from the opinion in the *Munger Case* also is quoted in the opinion of the Circuit Court of Appeals for the Second Circuit in *Loose v. Bellows Falls Pulp Plaster Co.*, 266 Fed. 81, but again the statement was not necessary to the decision. The *Loose Case* could have been decided merely by applying the well established principle of equity practice that if a bill for relief and discovery fails as to the

relief, it also necessarily fails as to the discovery. *United States v. Bitter Root Co.*, 200 U. S. 451, 18 C. J. 1060-1061, and cases cited in note 58, and 1072-1073 and cases cited in note 41.

There are very few opinions of the Courts of the United States which directly discuss the question whether a Court of Equity may allow discovery of facts and of documents which relate solely to the question of the damages recoverable. That condition, however, appears to be due primarily to the fact that the principles and the practice of equity relative to discovery have been so well established for so many years that this question has not been raised or discussed, either in the opinions of the Courts or in the works on equity pleading and practice, even though some confusion and uncertainty as to the law was caused by the opinions of the Circuit Court of Appeals for the Second Circuit in the *Munger* and in the *Loose Cases*. The earlier authorities, however, state in the clearest and most unequivocal manner the propositions on which the respondent relies and which were accepted by the Circuit Court of Appeals for the First Circuit.

Principles & Practice of Discovery (Bray, London, 1885), Chapter I, The Extent or Scope of the Right, states:

> "In an action for relief the court has power to enforce in favour of a party to that action from an opposite party all discovery relating to any matter in question between them in that action.
>
> "A party to an action for relief is entitled as of right to have from the opposite party in that action all discovery material for the determination of *any matter in question certainly about to come on for trial between them in that action.*" (p. 11) (Italics ours)

In Points in the Law of Discovery (Wigram, First American from Second London Edition, Boston, 1842), Mr. Wigram states with reference to the situation when a defendant has answered:

" * * And as all the points in the cause will thus come on for trial *simultaneously*, the right of the plaintiff to discovery will of necessity attach upon them all." (p. 80)

Halsbury's "Laws of England" states:

"So, also, discovery bearing only on the question of damages or accounts, and not on the question of defendant's liability, where it is possible to deal separately with the questions of liability and of the amount of damages, will sometimes be postponed until the question of liability is determined. *But where the discovery is for the purpose of enabling the party to obtain complete relief at the trial, and to do away with the necessity of an account being taken subsequently, the court may refuse to postpone it.*" 11 Halsbury's Laws of England 52. (Italics ours)

The authorities which are in point on the question under consideration, and especially the English authorities, establish conclusively that the proper determination of the question as to whether discovery should be allowed with reference to any particular issue in a suit or action, does not in any way depend upon or require any consideration of the character or nature of the issue as to which the discovery is sought;—that is, as to whether the particular discovery sought relates to the issue of the plaintiff's right or title or to the issue of the amount of the damages to which the plaintiff may be entitled. Irrespective of the issue concerning which discovery is sought, *the discovery should be allowed if, but only if, that particular issue next is about to come on for trial.* Principles & Practice of Discovery (Bray, London, 1885); Points in the Law of Discovery (Wigram, First American from Second London Edition, Boston 1842); The Law and Practice of Discovery (Peile, London, 1883); *Saunders v. Jones*, 7 Ch. D. 435 (1877); *Owen v. Morgan*, 39 Ch. D. 316 (1888); *Brown v. Evered & Co.*, 21 R. P. C. 501 (1904), (Scotland); *Schreiber v. Heymann*, 63 L. J.

Q. B. 749 (1894); *Elkin v. Clarke*, 21 W. R. 447 (1873); *McKinnon-Young Co. v. Stockton*, 55 Fla. 708, 46 So. 87 (1908); *Wells v. Holman*, 115 So. Car. 443, 106 S. E. 224 (1921); *Sherwood Bros. Inc. v. Yellow Cab Co. of Philadelphia*, 283 Pa. 488, 129 A. 563 (1925); *Hofman v. Seixas*, 33 N. Y. S. 23 (1895); *White v. Wilson*, 37 N. Y. S. 193; and *Burns v. Lipson*, 204 N. Y. A. D. 643 (1923).

It appears probable that the statement in the opinion in the *Munger case* which is quoted above is due to an inadvertent misapplication of the well established principle that discovery only is allowed when immediately material because the issue to which it relates next is about to come on for trial. As stated above, however, the situation in the action at law in aid of which this suit in equity for discovery was instituted is such that nothing could be more certain than that the next proceeding in that action will be a trial to a jury on the issues of the petitioner's liability for a breach of the contract of October 2, 1916, and of the respondent's right to damages on account of any such breach, and that the trial of those issues can not be separated. The respondent, therefore, now is entitled to the discovery of facts and of documents which are relative and material to the issue of the respondent's damages as well as to the issue of the petitioner's liability.

IV.

THE OPINION OF THE CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT DOES NOT CONFLICT ON ANY POINT OF LAW WITH THE OPINION OF THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT IN BRADFORD V. INDIANA HARBOR BELT RAILROAD COMPANY.

The Circuit Court of Appeals for the Seventh Circuit in *Bradford v. Indiana Harbor Belt Railroad Co.*, 300 Fed. 78, sustained a decree dismissing a bill of complaint for

discovery in aid of an action at law for damages alleged to be due to the plaintiff of seventy-five cents for each car and one dollar for each locomotive moved over a railroad on the plaintiff's property. The bill of discovery alleged that the material issue of the suit at law was the occupation and extent of the use of the property by the defendant and the amount it charged and received therefor; that the defendant kept books of account and had papers and documents showing the extent of the use of the tract; and that the plaintiff had no means of ascertaining such facts except through the answers to the interrogatories appended to the bill. It is clearly apparent, therefore, that the discovery sought in the *Bradford Case* related almost exclusively, if not exclusively, to the question of the amount of the damages to which the plaintiff might be entitled in his action at law, and that the plaintiff did not allege any facts whatsoever in the bill of discovery on the basis of which the Court could have determined whether there was a plain, adequate and complete remedy at law under Rev. Stat., Sec. 724 (28 U. S. C., Sec. 636), in that the desired evidence could be obtained in a practically useful way under that statutory provision so that there was no real need for the discovery prior to the trial.

The Circuit Court of Appeals for the Seventh Circuit really sustained the decree dismissing the bill of discovery in *Bradford v. Indiana Harbor Belt Railroad Company* for the three following reasons:

> First, that if the ascertainment of the facts would be simple and would not involve complex and voluminous accounts, the ordinary processes of law would be sufficient and the extraordinary relief by discovery in equity would be entirely unnecessary, and that the plaintiff could invoke Sec. 724 of the Rev. Stat. and it would not be presumed that the District Court would deprive him of a reasonable opportunity to examine the books and documents before the trial was concluded.

Second, that if it would be complicated, difficult and costly to establish the facts sought by the discovery, that condition was due entirely to the plaintiff's own carelessness or neglect of his rights so that it would not be equitable to permit him to impose on the defendant the expense and burden of making up the desired account.

Third, that the defendant in its brief and argument had tendered to the plaintiff all the benefits of the Indiana Statutes with reference to the production of books and papers in advance of the trial for inspection by the opposite party, so that in effect the defendant voluntarily had offered to the plaintiff everything the plaintiff could have secured by answers to his interrogatories.

It is clearly apparent that no one of the reasons stated by the Circuit Court of Appeals for the Seventh Circuit for sustaining the decree of the trial court in *Bradford v. Railroad Company*, has any bearing whatsoever on any question here under consideration. If the Circuit Court of Appeals for the Seventh Circuit had entertained any idea whatsoever that the subject matter of the discovery sought by the plaintiff was improper because it related to the ascertainment of the amount of the damages, the court certainly would have so stated in its opinion, and probably would have made that fact the principal reason for affirming the decree. Finally, with reference to the third reason for the decision, the petitioner herein, the Sinclair Refining Company, never in any way has offered to facilitate the respondent's preparation of any part of the evidence necessary to maintain the pending action at law in aid of which this proceeding in equity was instituted.

The petitioner's brief (pp. 16, 17) argues that the only specific allegations in the respondent's bill in equity for discovery as to the necessity for discovery prior to the trial rather than at the trial, relate only to the requests for discovery as to the number of barrels of gasoline produced in and as to the number of barrels of oil charged into the

petitioner's Isom cracking stills; that the Court held that discovery as to those matters should not be allowed at the present time; and that, therefore, the bill should have been dismissed on the ground that it does not allege facts which affirmatively show that the discovery ordered by the Circuit Court of Appeals for the First Circuit should be allowed in advance of the trial. Even if the petitioner's contention with reference to the construction of the allegations of the bill in equity for discovery is sound, the issue is immaterial, as the respondent clearly would be entitled to leave to amend in order to supply any deficiency or any incompleteness in the jurisdictional allegations. However, the bill in equity for discovery alleges in paragraph 6 that the respondent cannot safely proceed to the trial of the action at law and cannot prove with any degree of accuracy and completeness at the trial the damages which the respondent has suffered by reason of the petitioner's breach of the contract without the discovery sought by the bill (R. 6) and in paragraph 7 that the facts and documents concerning which discovery is sought are exclusively within the knowledge and exclusively and solely in the possession of the petitioner, that those facts and documents are material to the support of the respondent's case as stated in the declaration in the action at law, and that those facts and documents are not available to the respondent without the assistance of the Court of Equity. (R. 7) Furthermore, the statement in the opinion of the Circuit Court of Appeals for the First Circuit that facts as to the nature of the invention, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art, may be supplemented by opinion evidence of value (R. 88) clearly indicates that an inspection of the drawings showing the particular character, type and construction of the petitioner's Isom cracking stills must be had prior to the trial in order that the respondent's experts may have an adequate opportunity to familiarize themselves as to the facts concerning which they will testify.

V.

THE DECISION OF THE CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT THAT THE RESPONDENT IS ENTITLED TO INTRODUCE EVIDENCE AS TO THE RESULT OF THE ISOM APPLICATION AND AS TO THE COMMERCIAL UTILITY OF THE INVENTION OF THE ISOM PATENT AS SHOWN BY ITS USE IN THE OIL CRACKING ART OR INDUSTRY AND THAT THE BREACH OF THE CONTRACT OF OCTOBER 2, 1916, PROBABLY OCCURRED WHEN THE ISOM PATENT WAS ISSUED TO THE PETITIONER IS IN ACCORDANCE WITH THE GENERAL PRINCIPLES OF LAW AND IS SUPPORTED BY THE WEIGHT OF AUTHORITY.

The fundamental purpose of the principles of law as to the allowable damages in any case is to give adequate compensation to a plaintiff and not to protect a defendant in the enjoyment of what it wrongfully has acquired or has withheld. Fundamentally, the *prima facie* measure of the damages for the breach of a contract is the amount of the loss which the injured party has sustained thereby. Williston on Contracts (pp. 2392-2394); *United States v. Behan*, 110 U. S. 338; *Chicago, Milwaukee & St. Paul Railway Co. v. McCall-Dinsmore Co.*, 253 U. S. 97; and *Federal Wall Paper Co. v. Kempner*, 244 Fed. 240.

It unquestionably is the general rule that the damages for the breach of a contract to transfer property are based on the market value of that which should have been delivered by the defendant, at the place where and at the time when delivery should have been made. However, that general rule is not applicable to the pending action at law in aid of which discovery is sought hereby, because the subject matter of the contract in suit makes the ascertainment of such a market value absolutely impossible. A patent only can be issued for a new and useful invention.

Every patent therefore differs from every other patent and every patent therefore has a purely individual utility and value. The general rule of damages is applicable only to the usual articles of commerce which are bought and sold repeatedly and for which a market value is established in accordance with the economic law of supply and demand. In the case of a patent, however, no such criterion of a market value can exist, and the general rule of damages based on the standard of market value cannot be applied. *United States v. Swift & Co.*, 270 U. S. 124; Williston on Contracts (pp. 2398-2399, 2460-2461); and *United States Frumentum Co. v. Lauhoff*, 216 Fed. 610. In *United States Frumentum Co. v. Lauhoff*, an action at law for the infringement of a patent, the Circuit Court of Appeals for the Sixth Circuit stated with reference to the ascertainment of damages under conditions where the rule of the market value is not applicable:

> "* * * The real value—the actual value—of what has been taken is always the ultimate question. Proof of market value is one way to show this actual loss; proof of lost sales is another way. But, if neither of these methods can be followed, the law permits other available, pertinent proofs. Those familiar with real estate estimate and testify to the real value or fair value of land which is without market value (*Chicago, etc., Ry. v. Ohio Co.* (C. C. A. 6), 214 Fed. 751, 131 C. C. A. 57); and these witnesses and *the jury may take into account all the special circumstances of the situation as bearing on the ultimate question.* The same thing is true as to personal property of such character that it has no market value. Instances of the application of this rule as to both real and personal property are too familiar for citation. In the same general class are all personal injury cases. Pain and suffering, the loss of earning power, the loss of support, are all things which have no market value and all present situations where the damages cannot be ascertained or computed according to any arithmetical formula; *but the jury is put in possession of all the facts and cir-*

cumstances, it has the benefit of such testimony from experts as may show the rules and methods in force in the particular field, *and it estimates, as best it may, how much money will compensate plaintiff for the wrong done.*" (Italics ours)

The petitioner, Sinclair Refining Company, consistently has endeavored in the District Court, in the Circuit Court of Appeals, and now in its petition for a writ of certiorari, to establish limitations on the respondent's right to introduce evidence on the issue of the damages which the respondent has suffered on account of the petitioner's breach of the contract of October 2, 1916, which, if sustained, very possibly might make it impossible for the respondent to introduce evidence which would entitle the jury to return a verdict for anything more than nominal damages, no matter how meritorious the respondent's case might be. Briefly summarized, the petitioner's contentions and the results on the trial of the pending action at law if those contentions shall be sustained are as follows:

Any breach of the contract of October 2, 1916, occurred on September 10, 1917, when Edward W. Isom filed his application on which United States Letters Patent No. 1,285,200 later issued and when he assigned that application to the petitioner; the only measure of damages for that breach of contract is the market value of that patent application as of that date, and therefore no evidence as to matters and things of any later date can be introduced at the trial of the action at law even for the purpose of assisting the jury to ascertain the market value of that application as of that date.

Those contentions, if sustained, would preclude the respondent from introducing at the trial of the pending action at law, not only all evidence as to the matters and things of which discovery is sought herein, but also all evidence of every kind and nature whatsoever as to the actual and practical utility and value of the inventions of

the Isom patent as established by the construction and by the operation and by the extent of the operation and by the economy and the efficiency of the operation of cracking stills embodying those inventions, whether constructed and operated by the petitioner or by the respondent or by any other persons or corporations. Under those conditions, practically the only evidence which the respondent would be allowed to introduce to establish the value of the Isom application or patent as the measure of the damages to which the respondent is entitled, would consist of the purely theoretical and speculative opinions of experts based solely on a study of the patent application and of the state of the art as of the date that application should have been assigned to the plaintiff.

The petitioner's contentions, if sustained, would place an unreasonably narrow construction on the contract of October 2, 1916. The important provision of that contract is that any improvements, whether of a mechanical nature or in the process, developed by the petitioner's engineers and experts in familiarizing themselves with the Jenkins apparatus and process, should accrue to the Jenkins Company. The provision with reference to the assignment to the Jenkins Company of any application filed to protect any such improvements is a subordinate provision of the contract which merely specifies one means for carrying out the principal provision. The plaintiff, therefore, should be permitted to introduce any and all evidence which is relevant and material on the issue of the *value of the inventions* for which Letters Patent of the United States were issued to the Sinclair Company as the assignee of Edward W. Isom, and the consideration of the jury should not be limited to the question of the *value of the application for a patent* which was filed by Edward W. Isom on September 10, 1917, and on which Letters Patent No. 1,285,200, dated October 19, 1918, thereafter issued. In accordance with the petitioner's contentions, however, the jury would be limited

to the purely speculative inquiry, first, as to whether any patent would issue on the basis of the original application filed by Edward W. Isom, and if so, as to the scope that patent would have and as to the inventions that would be covered thereby, and second, as to the commercial value of the patent, the scope and the fact of the issuance of which would depend upon the result of the first speculative inquiry. Both those inquiries, of course, in accordance with the petitioner's contentions, would be made entirely from the viewpoint of September 10, 1917, and all actual facts, and all actual knowledge derived from any matters and things of any later date than September 10, 1917, would be disregarded and would be kept from the consideration of the jury.

We submit that those contentions are not sound, but that on the contrary, all the applicable principles of law have the purpose and the effect of assisting the jury to learn and to consider all the facts, circumstances and conditions which are directly pertinent to the questions submitted for its consideration and verdict.

The fundamental questions which will be submitted to the jury for its decision at the trial of the pending action at law are, first, did the petitioner breach the contract of October 2, 1916, by failing and refusing to assign the Isom application or patent to the respondent, and second, if the first question is answered in the affirmative, in what amount has the respondent been damaged by that breach of the contract by the petitioner?

The opinion of the Circuit Court of Appeals for the First Circuit reasonably holds that under the conditions existing in the pending action at law the usual rule of the market value is not applicable as the measure of the damages to which the respondent is entitled, stating:

> "An application for a patent, being a thing *sui generis*, has no 'market' value in the strict use of that term. *Standard Oil Co. v. So. Pacific Co.*, 268 U. S.

146; *United States Frumentum Co. v. Lauhoff*, 216 Fed. 610 (C. C. A. 6). Its money value may be estimated from the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art. These facts, and other relevant circumstances, may be supplemented by opinion evidence of value, as in the case of real estate. *Montana Ry. Co. v. Warren*, 137 U. S. 348.

"We do not think that a court, valuing in judicial proceedings an invention described in an application for a patent, is obliged to shut its eyes to the result of the application, nor to the commercial utility of the invention as shown by the use of it in the art or industry to which it relates, but may take evidence on those points up to the time of trial. Williston on Contracts, page 2394.

"Such evidence is not for the purpose of showing increase in value or new uses,—which as is well settled with regard to the valuation of land taken by eminent domain would not be admissible,—but to show the inherent character and place of the invention in question. It is analogous to evidence of successful commercial use of a patent on the question of invention, and of the actual results of a physical injury for which damages are sought. *Hetzel v. B. & O. R. R. Co.*, 169 U. S. 26; *Cincinnati S. & L. Co. v. Western S. L. Co.*, 152 U. S. 200. * * *" (R. 88-89)

The petitioner's contention that the only measure of the damages which the respondent should be allowed to recover, is the market value of the application on which United States Letters Patent No. 1,285,200 later were issued, as of September 10, 1917, when that application was filed by Edward W. Isom and when it was assigned by him to the petitioner, is thoroughly unreasonable. Certainly, it cannot be the law that the respondent's cause of action accrued and the statute of limitations began to run against it, long prior to the date when the respondent knew or when the respondent by any means could have ascertained that the petitioner had breached the contract.

If the petitioner's position is correct, any person who has contracted to assign an invention, can avoid any liability for a breach of that contract, merely by keeping his secret patent application pending so long in the Patent Office that the patent does not issue until after the statute of limitations has run against the cause of action which accrued when the application was filed and was not assigned.

VI.

CONCLUSION.

We respectfully submit, that for the various reasons stated above the petition for a writ of certiorari should be denied.

C. Stanley Thompson,
Philip G. Clifford,
Frederick Schafer,
Of Counsel for Respondent.

March 28, 1933.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No. 752

SINCLAIR REFINING COMPANY,
Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF FOR RESPONDENT.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1932.

No. 752

SINCLAIR REFINING COMPANY,
Petitioner,

vs.

JENKINS PETROLEUM PROCESS COMPANY,
Respondent.

BRIEF FOR RESPONDENT.

STATEMENT OF THE CASE.

The writ of certiorari which was granted by this court on April 10, 1933, on the petition of the Sinclair Refining Company, brings before this court for review a decision and decree of the Circuit Court of Appeals for the First Circuit which sustains the right of the respondent to maintain its bill in equity herein for the discovery by the petitioner of facts which rest peculiarly within the knowledge of the petitioner and of documents in the possession of the petitioner, which are relevant and material to the support of the respondent's case in an action at law in which the respondent is the plaintiff and the petitioner is the defendant, and which is pending and is undetermined on the law side of the United States District Court for

the District of Maine, the court in which this bill in equity for discovery was filed.

The action at law in aid of which the discovery hereunder consideration is sought, originated in a suit in equity which was instituted on January 21, 1921, when the respondent filed a bill of complaint to secure specific performance of a written contract between the respondent and the petitioner's predecessor, the Cudahy Refining Company. (R. 46.) That contract, dated October 2, 1916 (R. 14), related to the loan by the respondent to the petitioner of an experimental still for cracking petroleum oils to produce gasoline, and to advice and assistance to be given to the petitioner's experts in connection with further experimental work to be carried on with reference to a process for treating petroleum oils which had been invented by Mr. Ulysses S. Jenkins. The provisions of the contract of October 2, 1916, on account of which relief was sought by the original bill in equity, and on account of which damages now are claimed in the declaration in the pending action at law, are as follows:

> "It is further definitely understood and agreed between us *that any improvements, whether of a mechanical nature, or in the process,* which may be developed as the result of the work of your (Cudahy Refining Company's) engineers and experts in familiarizing themselves with the Jenkins apparatus and process, *shall accrue to the Jenkins Petroleum Process Company,* and that you shall, so far as you are able to do, cause your employees carrying on such experimental work to execute applications for patents for the United States and any other countries to protect any such improvements, but at the expense of the Jenkins Petroleum Process Company, and *to assign said applications, together with the improvements they are intended to protect, to the Jenkins Petroleum Process Company.* * * *"*
> (Italics ours.)

The bill of complaint in the original suit in equity for specific performance and the declaration in the pending action at law for damages for a breach of the contract of October 2, 1916, each alleges full performance by the respondent of its obligations under the contract of October 2, 1916, the use of the experimental still and of the services of Mr. Jenkins by the petitioner, and particularly by Edward W. Isom, an employee and an officer of the petitioner, and then alleges that said Edward W. Isom, having acquired the ideas and having obtained instruction, information and advice from Mr. Jenkins and from other officers and employees of the respondent, surreptitiously and without the knowledge of the respondent or of its officers or representatives, filed a certain application for letters patent of the United States; that thereafter letters patent of the United States No. 1,285,200 issued to the petitioner on that application; that the apparatus and process described in said Letters Patent No. 1,285,200 was developed as a result of the opportunities afforded to Edward W. Isom and to other engineers and experts and employees of the petitioner to familiarize themselves with the Jenkins apparatus and process, and of the instructions, information and advice given to Edward W. Isom and to other engineers and employees of the petitioner by Mr. Jenkins and by other officers and representatives of the respondent; that the apparatus and process described in said Letters Patent No. 1,285,200 embody the essential features of the invention of Mr. Jenkins and disclose in addition thereto only improvements of a mechanical character and in the process; and that in so far as the apparatus and process described in said Letters Patent No. 1,285,200 have merit and utility in the art, such merit and utility consist simply in improvements and adaptations in the Jenkins apparatus and process.

After a hearing and the introduction of evidence on behalf of both parties, the District Court held that a case for specific performance had not been established. (32 F. (2d) 247.) The opinion of the Circuit Court of Appeals for the First Circuit on the appeal of the respondent from the decree of the District Court in the original suit in equity (32 F. (2d) 252) stated:

> "That Isom made his invention from what was disclosed by Jenkins rather than from knowledge gained from his own experimentation, the prior art, and from all that had been disclosed by prior patents, is not in our opinion *so clearly shown* as to ground a decree for specific performance." (p. 256) (Italics ours.)
>
> * * * * *
>
> "To sustain a decree of specific performance the contract not only should be clear and unambiguous, but the evidence in relation to acts alleged to have been done under it and necessary to give it effect should be clear and convincing.
>
> Failing such evidence, the parties must be left to their equitable or legal remedies; the bill must be dismissed without prejudice and without costs." (p. 257)

In its mandate, however, the Circuit Court of Appeals for the First Circuit modified its own opinion and the decree of the District Court, and ordered, adjudged and decreed that:

> "The decree of the District Court is affirmed so far as it denies specific performance of the contract of October 2, 1916. But so far as it dismisses the bill as to other issues involved, it is reversed; and as to those issues the case is remanded to the District Court with directions to transfer it to the law side of the court, where within thirty days from the date of this order the plaintiff may have leave to amend its bill of complaint into an action at law for breach of the contract of October 2, 1916. No costs are to be allowed to either party." (R. 78.)

In accordance with that mandate and with an order of the United States District Court for the District of Maine transferring the cause to the law side of that court, the declaration in the pending action at law in aid of which the bill in equity for discovery herein was brought, was filed on August 28, 1929. The petitioner's motions to strike out the declaration and to dismiss the action were argued and were denied. (38 F. (2d) 820.) Thereafter, the petitioner's motion for further and better particulars and the respondent's motion for leave to amend the declaration by adding a third count were heard by the court and the motion for leave to amend was granted. (R. 18.) Thereafter, the petitioner filed its plea and its brief statement of the special matters of defense to be used under the general issue pleaded, and issue was joined by the respondent on the petitioner's plea. (R. 24.)

Briefly stated, the declaration in the pending action at law in aid of which the bill in equity for discovery herein was filed by the respondent, alleges a breach by the petitioner of the contract of October 2, 1916, in that the petitioner, regardless of its obligations under and in accordance with the terms of said contract, did not cause Edward W. Isom to assign to the respondent his application for letters patent on which letters patent of the United States Number 1,285,200 issued, and in that the petitioner did not turn over to or cause to accrue to the respondent the improvements of a mechanical nature and in the process which are described in said letters patent and for the protection of which said application for letters patent was filed, and the declaration prays damages for that breach of the contract.

The bill in equity which was filed herein by the respondent on September 8, 1931, is alleged to be brought for the discovery by the petitioner of facts which rest

peculiarly within the knowledge of the petitioner, and of documents in the possession of the petitioner, which are material to the support of the respondent's case in the action at law which now is pending and is undetermined on the law side of the court in which the bill was filed.

After alleging the facts which have been set forth hereinbefore with reference to the proceedings in the action at law, the bill further alleges, on information and belief, that during the period of time starting on the 19th day of November, 1918, namely, the date of the issuance of the Isom Patent No. 1,285,200, and extending down to the date of the filing of the declaration in the action at law, namely, to August 28, 1929, the petitioner, the Sinclair Refining Company, constructed, operated and used a large number of cracking stills for the commercial production of gasoline and of other petroleum products resulting from the cracking of petroleum oils; that each and every of said cracking stills embodied and contained the characteristic and salient elements and features of the devices and inventions covered by the claims of United States Letters Patent No. 1,285,200 which was issued under date of November 19, 1918, to the petitioner as the assignee of Edward W. Isom; that the cracking stills constructed as alleged in accordance with the design and with the general idea of said Patent No. 1,285,200, produced during the period of time for which the discovery is sought, a large part, if not all of the commercial production of the petitioner of gasoline and of allied petroleum products resulting from the cracking of petroleum oils, and that the inventions of said Patent No. 1,285,200 have been the basis of such commercial production of the petitioner during the period of time specified.

The bill in equity for discovery herein then alleges that the respondent cannot safely proceed to the trial of

the pending action at law, and cannot prove with any degree of accuracy and completeness at the trial of that action at law, the damages which the respondent has suffered by reason of the petitioner's breach of the contract of October 2, 1916, without

(a) The full discovery by the petitioner as to whether or not it constructed and operated during the time thereinbefore specified any cracking still or cracking stills as thereinbefore mentioned and defined;

(b) The full discovery by the petitioner as to the number, if any, of such cracking stills, the date each such cracking still was constructed and the period of time each such cracking still was operated by the petitioner;

(c) An inspection of the drawings showing the particular character, type and construction of any such cracking still or cracking stills constructed, used and operated by the petitioner;

(d) The quantity of gasoline (in barrels) and of other allied petroleum products resulting from the cracking of petroleum oils in any such cracking still or cracking stills operated by the petitioner; and

(e) The amount of petroleum oils charged into any such cracking still or cracking stills constructed and operated by the petitioner.

The bill in equity for discovery herein alleges in paragraph 7 that the facts sought to be elicited from the petitioner are peculiarly and exclusively within the knowledge of the petitioner; that the documents sought to be inspected are exclusively and solely in the possession of the petitioner; that said facts and said documents are material to the support of the respondent's case as stated in the declaration in the action at law, and that said facts and said documents are not available to the respondent without the assistance of a court of equity. (R. 4.) The bill then further alleges that the production of the books, records and papers of the petitioner in response

to a subpoena *duces tecum* would not enable the respondent safely to prosecute its action at law by reason of the fact that the entries and notations in such books, records and papers are so numerous and so complicated that the respondent, its attorneys and other representatives, could not possibly ascertain definitely in a practical and correct manner and within any reasonable length of time, and especially not within the length of time which will be required for the trial of said action at law, either the amounts of petroleum oils charged into the cracking stills concerning which discovery is sought, or the production of gasoline or of allied petroleum products resulting from the cracking of petroleum oils in such cracking stills. (R. 5.)

The District Court sustained the petitioner's motion to dismiss the bill in equity for discovery. (56 F. (2d) 272.)

The opinion of the District Court, briefly summarized, stated the following reasons for sustaining the motion to dismiss:

> 1. Any breach of the contract of October 2, 1916, occurred not later than September 10, 1917, when the application for the Isom patent was filed.
>
> 2. For any breach of the contract the respondent is entitled to compensation commensurate with its loss at the time of the breach, namely, September 10, 1917, even if it is difficult to fix the value of the patent application or otherwise to determine the amount of the respondent's loss at the time of the breach.
>
> 3. The bill in equity for discovery cannot be maintained because its sole purpose is to discover evidence affecting the amount of damages.
>
> 4. Evidence of the value of the use of the Isom invention by the petitioner long after the date of the alleged breach would be inadmissible if offered at the trial of the action at law.

5. Evidence of the value of the Isom patent itself is inadmissible in the absence of evidence referring its value to the date of the breach of the contract.

6. The facts in the pending action at law do not bring the case within any of the recognized exceptions to the general rule that the respondent's rights must be determined as of the date of the breach of the contract, and therefore evidence of the value of the Isom patent or invention after the date of the breach of the contract cannot be admitted in evidence.

7. Discovery should not be required except on a very clear showing, where the information desired is very certainly admissible in evidence in the principal suit, and not as evidence merely, but as ultimate facts material to the issue.

On appeal, the decree of the District Court was reversed by the Circuit Court of Appeals for the First Circuit (62 F. (2d) 663), in an opinion which, briefly summarized, held:

1. That a bill for discovery may be maintained in the federal courts if the party filing such a bill shows that there is real need of it and that the desired evidence cannot be obtained in a practically useful way under Rev. Stat., Sec. 724, (28 U. S. C., Sec. 636); that the decision in *Carpenter* v. *Winn*, 221 U. S. 533, rather enlarges the field of bills for discovery, and that it is highly desirable that such evidence be sifted out before the jury trial. (p. 664.)

2. That bills for discovery may be brought to obtain evidence relevant only on the amount of damages. (In this connection the Circuit Court of Appeals for the First Circuit disagreed with the statement of the Circuit Court of Appeals for the Second Circuit in *Munger* v. *Firestone Tire & Rubber Co.* 261 Fed. 921, and in *Loose* v. *Bellows Falls Pulp Plaster Co.* 266 Fed. 81, to the effect that bills for discovery can be used only to obtain facts bearing on the "issues," *i. e.*, on questions of liability, and not to obtain evidence of damage, on the ground that

that statement is contrary to the weight of the American decisions and to the English law. (p. 664).)

3. That evidence as to the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art, are facts which, with other relevant circumstances, may be introduced and may be supplemented by opinion evidence of value to establish the value of an application for a patent, which is a thing *sui generis*, and which has no market value in the strict sense of that term. (p. 665.)

4. That evidence of the profits, if any, which the Sinclair Company made by using the Isom invention would have no relevancy on the question of damages. (p. 665.) (However, no one of the interrogatories which are incorporated in the respondent's bill in equity for discovery, seeks to obtain any information or data in any way relative to any profits which the petitioner may have made, and the respondent never has contended that the petitioner's profits are the measure of the respondent's damages, or even that evidence as to petitioner's profits would be relevant and material to the issue of the amount of the respondent's damages.)

5. That the contract of October 2, 1916, may be regarded as broken when the petitioner finally disabled itself from performing it, and that on the facts alleged, the contract appears to have been broken on the date when the application became merged into the patent. (p. 665.)

In accordance with the opinion of the Circuit Court of Appeals for the First Circuit, the respondent is entitled to have discovery from the petitioner of general facts which show the commercial utility of the inventions of the Isom patent in the art or industry to which that patent relates; it is entitled to secure evidence relative to such matters as of any time up to the date of the trial of the action at law, and such evidence is relevant and material as one of the elements tending to establish the value of

the inventions of the patent. On the other hand, in accordance with this opinion, the respondent is not entitled to discovery as to the precise extent to which the petitioner has made use of the inventions of the Isom patent, and such evidence is not material to the respondent's case in chief. However, the opinion also further holds that if the petitioner shall deny the utility and the commercial success of the Isom invention, evidence of the petitioner's use of that invention might be highly significant, and the respondent thereupon would be entitled to the discovery prayed for by the bill but which is not to be allowed at the present time. From the statements in the opinion which is here under review, it therefore appears that the respondent now is entitled to the full discovery by the petitioner as to the number of Isom cracking stills constructed and operated by the petitioner, and as to the period of time each such cracking still was operated, and to an inspection of the drawings showing the character, type and construction of the Isom cracking stills constructed and operated by the petitioner, but the respondent is not entitled to the discovery of the details as to the products resulting from the operation of Isom cracking stills by the petitioner, or as to the stocks charged into those cracking stills by the petitioner.

SUMMARY OF ARGUMENT.

In accordance with the long established and thoroughly settled principles relative to discovery, a bill in equity may be maintained for the discovery of facts and of documents which are relevant and material to any issue, including the issue of the damages recoverable, which next is about to come on for trial in the pending action at law to which the suit in equity is ancillary. *A Treatise on Discovery of Evidence*, (Hare, 1849); *The Law and Practice of Discovery*, (Peile, London, 1883); *Principles and Practice of Discovery*, (Bray, London, 1885); *Points in the Law of Discovery*, (Wigram, First American from Second London Edition, Boston, 1842), and *The Law of Discovery*, (Ross, 1912). The situation in the pending action at law in aid of which this bill of discovery was filed is such, the petitioner's motions to strike and to dismiss having been denied and the petitioner's pleas to the declaration having been filed, that the next proceeding therein certainly will be a trial to the jury on the issues of the petitioner's breach of the contract of October 2, 1916, there in suit, and of the amount of the damages to which the respondent is entitled.

The statements in *Munger* v. *Firestone Tire & Rubber Company*, 261 Fed. 921, on which the District Court herein relied in dismissing the respondent's bill in equity because the discovery sought thereby relates solely to the question of damages, are not supported by any other authority whatsoever and they are contradictory to the opinion of this Court in *Carpenter* v. *Winn*, 221 U. S. 533. The opinion in *Carpenter* v. *Winn* establishes that the discovery which may be secured prior to trial by a bill in equity is identical in scope with the discovery

which may be obtained at the trial of an action at law under Section 724. Evidence relative to damages clearly may be obtained under Section 724, and therefore the same evidence must be obtainable by a bill in equity for discovery in aid of an action at law, provided only that there is a real necessity for obtaining the evidence prior to the trial rather than at the trial. The allegations of the bill in equity herein, which must be assumed to be true as against a motion to dismiss, clearly establish the necessity for the discovery prior to the trial of the action at law in aid of which the discovery is sought.

The general rule that the best evidence of the amount of the damages for a breach of a contract to transfer property is the market value of that property at the time when and the place where the delivery should have been made, is not applicable in the pending action at law in aid of which discovery is sought hereby, because the breach of the contract there in suit consists of the failure to assign an application for a patent and the improvements, whether of a mechanical nature or in the process, for the protection of which that patent application was filed, or to assign the patent which issued on that application. A patent only can be issued for a new and useful invention and every patent therefore differs from every other patent and every patent therefor has a purely individual utility and value. For that reason there never is any established market price from which the value as of any particular date can be ascertained.

The best and most satisfactory evidence as to the value of a patent consists of evidence as to the commercial use and as to the commercial utility of the inventions of that patent. The respondent therefore should be permitted to introduce at the trial of the pending action at law to which this suit in equity is ancillary, the

evidence sought to be obtained by the answers to the interrogatories set forth in the bill herein as well as all other evidence relative to the use by the petitioner in its commercial cracking of petroleum oils to produce gasoline, of the inventions disclosed and claimed in the Isom application and of the improvements, whether of a mechanical nature or in the process, to protect which that application was filed, as such evidence is relevant and material for the purpose of establishing the value of those inventions and of those improvements and the amount of the damages which the respondent has suffered on account of the petitioner's refusal to assign them to the plaintiff in accordance with the contract of October 2, 1916.

The amount of the respondent's damages should be measured either in accordance with the rule as to general damages for a violation of a patent right, (generally but incorrectly referred to as the reasonable royalty rule); *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 610; *Suffolk Mfg. Co.* v. *Hayden*, 3 Wall. 315, 18 L. Ed. 76; and *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Company*, 235 U. S. 641, 59 L. Ed. 398; or in accordance with the rule that the respondent is entitled to recover the gains which it was prevented from obtaining by reason of the petitioner's breach of the contract; *Eckington & Soldiers Home Railroad Company* v. *McDevitt*, 191 U. S. 103, 48 L. Ed. 112, and *Cincinnati Siemens-Lungren Gas Company* v. *Western Siemens-Lungren*, 152 U. S. 200, 38 L. Ed. 411; or in accordance with the rule of the highest intermediate value of the property between the date delivery should have been made and the date of the trial. *Galigher* v. *Jones*, 129 U. S. 193, 32 L. Ed. 658. As the rule of the highest intermediate value is applied in cases relating to property which does not have any fixed market value at which it can be replaced at any

time and to cases in which the contract in suit has been entirely performed by the plaintiff, either by paying for the property to be transferred or otherwise, that rule is especially applicable to the action at law to which this suit in equity is ancillary.

In any event the respondent should be permitted, because of the peculiar facts and of the peculiar situation in the action at law to which this suit is ancillary, to introduce evidence at the trial of that action as to all facts, circumstances and conditions which may be informative and of assistance to the jury in determining a fair value for the Isom application or patent and for the inventions and improvements covered thereby, and the respondent should not be limited to any purely speculative inquiry as to the value of the Isom application as of the date that application was filed. In any event the breach of the contract should be held to have occurred not earlier than when the petitioner refused to assign the Isom patent to the respondent, and it should not be held to have occurred when the application on which that patent later issued was filed secretly in the Patent Office.

ARGUMENT.

I.

The Respondent Is Entitled to Discovery from the Petitioner in Advance of the Trial of the Pending Action at Law of Facts and of Documents Which Are Relevant and Material Only to the Issue of the Amount of the Damages Which Are Recoverable in That Action at Law.

The petitioner necessarily relies primarily, as it has relied primarily in its arguments before the District Court of the United States for the District of Maine, and before the Circuit Court of Appeals for the First Circuit, on the opinions of the Circuit Court of Appeals for the Second Circuit in *Munger* v. *Firestone Tire & Rubber Company*, 261 Fed. 921, and in *Loose* v. *Bellows Falls Pulp Plaster Company*, 266 Fed. 81, to support the proposition that a bill for discovery does not lie to discover evidence relative only to the amount of the damages recoverable in an action at law. The opinion of the District Court herein, cited, quoted and relied on those opinions in the *Munger* case, and in *Loose* v. *Bellows Falls Company* (R. 37), and no other opinions or authorities whatsoever, in sustaining the petitioner's motion to dismiss this bill of complaint for discovery on the ground that the sole purpose of the bill is to discover evidence affecting the amount of damages. The dissenting opinion of Judge Wilson of the Circuit Court of Appeals for the First Circuit also cites only the same opinions in support of the same proposition (R. 87), but that dissenting opinion also discusses a number of other opinions which sustained the right to maintain a bill

in equity for discovery relative, among other things, to the amount of the damages recoverable in a pending action at law, and draws a distinction between a bill of discovery to obtain evidence solely on the question of damages, which it states cannot be maintained, and a bill of discovery to obtain evidence essential to determine liability and also evidence bearing on the question of damages, which it states may be maintained. (R. 88.) That distinction appears to be illogical and to be entirely unsupported by authority. Certainly, if equity never allows discovery of facts or of documents which relate only to the amount of damages recoverable, as is stated in the opinions in the *Munger* case and in *Loose* v. *Bellows Falls Company*, that alleged principle of equity cannot become inapplicable merely because the discovery relative to the amount of the damages is sought in a bill which also seeks discovery with reference to some other issue in the same pending action at law.

The portion of the opinion of the Circuit Court of Appeals for the Second Circuit in the *Munger* case which primarily is responsible for the controversy which now is presented to this court for determination, is as follows:

> "In other words, equity grants discovery in aid of a plaintiff's right or cause of action or in aid of a defendant's defense. These are defined by the issues of the case; *whereas the amount of damages is never at issue.* If a plaintiff prevail upon the issues upon his cause of action, he will be entitled to nominal damages, though he prove no damage at all, and of course, if a defendant prevail upon the issues as to his defense, no damages will be recoverable. *The amount of damages is not an issue, but follows the determination of the issues in the case, and discovery is granted only in aid of the issues.*" (Italics ours.)

In *Loose* v. *Bellows Falls Company*, the Circuit Court of Appeals for the Second Circuit again stated:

> "* * * Equity will not aid law to ascertain

> damages by entertaining a bill for discovery. *Munger* v. *Firestone, etc., Co.* 261 Fed. 921, ... C. C. A. ..... A *fortiori* will it not retain a bill when the discovery desired has no other purpose than the liquidation of damages. * * *"

The opinion of the Circuit Court of Appeals for the First Circuit, in reversing the decree of the District Court herein, and in sustaining the respondent's right to maintain the bill in equity herein for the discovery of evidence which relates solely to the issue of the damages recoverable in the pending action at law, states with reference to this question:

> "The next point is whether such bills may be brought to obtain evidence relevant only on the amount of damages. In *Munger* v. *Firestone Co.* 261 Fed. 921 (C. C. A. 2), and *Loose* v. *Bellows*, 266 F. R. 81 (C. C. A. 2), it was decided that bills for discovery could be used only to obtain facts bearing on the 'issues', *i. e.*, on questions of liability, and not to obtain evidence of damage. The opposite result was reached in *Guyot* v. *Hilton*, 32 Fed. 743, cited with approval in *Carpenter* v. *Winn*, *supra*, and in *Colgate* v. *Compagnie Francaise*, *supra*, where apparently no such distinction between liability and damages was suggested."

After stating that discovery has been allowed with respect to damages in the state courts, citing opinions, and that in England the right to discovery does not appear to have been limited by the technical "*issues*" presented in an action at law, but to have been allowed as to facts bearing on any "*question*" presented in that action, citing cases and authorities, the opinion of the Circuit Court of Appeals for the First Circuit further states:

> "There is a practical distinction as above noted between cases in which the plaintiff will be compelled to present all his evidence, both on liability and on damages, at the same hearing, and cases in which the assessment of damages can be postponed until

the question of liability has been determined. The English law and the weight of American decisions appear to be that in cases of the former sort discovery will be ordered on damages as well as on liability.

We think this much the sounder view. Damages are an important element in litigation; they are the reason why an action is brought. There is no good reason why discovery should not be ordered as to damages, except that if the defendant wins on liability the evidence on damages will go for nothing. This is always true of evidence of damages in actions at law; it always goes for nothing if the defendant prevails. But this has never been thought a sufficient reason for splitting a jury trial; and it does not seem to us a sufficient reason for refusing discovery. We are not impressed by the distinction,—for which no authority is cited,—between '*issues*' and questions of fact, made in the Munger case."

The respondent respectfully submits that the decision of the Circuit Court of Appeals for the First Circuit in this case does not in fact conflict with the decisions of the Circuit Court of Appeals for the Second Circuit in the *Munger* case and in the *Loose* case.

The respondent further respectfully submits that the opinion of the Circuit Court of Appeals for the First Circuit in this case is fully supported by principle and authority, and, conversely, that the statements in the opinions of the Circuit Court of Appeals for the Second Circuit in the *Munger* case and in the *Loose* case, which have been quoted above, are directly contrary to and contradictory of the well established and well settled principles and the established practice of equity relative to discovery; that those statements are not supported by any prior opinions or authorities whatsoever; that those statements have not been accepted and followed as authority for any later decisions, except the decision of the District Court of the United States for the District of

Maine in this case; that those statements are contrary to and contradictory of the necessary implications from prior decisions of courts of the United States, and to express decisions of English courts and of courts of several of the states of the United States, and that those statements are inconsistent with the opinion of this court in *Carpenter* v. *Winn*, 221 U. S. 533. These several points of argument will be taken up in the order in which they are stated.

The Decision of the Circuit Court of Appeals for the First Circuit in This Case Is Not Necessarily in Conflict With the Decision of the Circuit Court of Appeals for the Second Circuit in the Munger Case.

The decision of the Circuit Court of Appeals for the Second Circuit in *Munger* v. *Firestone Tire & Rubber Co.* 261 Fed. 921, affirming the decree of the District Court dismissing the bill of discovery in that suit, probably was correct in accordance with certain well settled principles of equity. Those well settled principles, however, were not in any way involved in the decision of the Circuit Court of Appeals for the First Circuit which sustains the right of the respondent herein to the discovery which it seeks to obtain by the interrogatories incorporated in its bill in equity for discovery.

Very little attention is given in the opinion in the *Munger Case* to the character of the evidence which the plaintiff-appellant-petitioner in that case sought to obtain by his bill in equity for discovery. However, it clearly is apparent that that evidence is entirely different in its character and in its scope from the evidence which the respondent herein seeks to obtain by answers to its interrogatories. The interrogatories incorporated in the bill in equity in this case require only the production of

summarized data relative to the use and to the extent of the use by the petitioner of the inventions and of the improvements which the respondent claims should have been assigned to it by the petitioner in accordance with the provisions of the contract of October 2, 1916, and an inspection of the drawings of the cracking stills in which the petitioner is alleged to have used and to have practiced those inventions and improvements.

The discovery sought by the plaintiff-appellant-petitioner in the *Munger Case* was entirely different in character. That discovery related almost entirely to the most minute and confidential details of the defendant-respondent's business; to the names of the defendant-respondent's customers, and to the selling prices of the defendant-respondent's products, and it required the production of all of the defendant-respondent's books, invoices, records, vouchers, agreements, correspondence, papers, documents and other data, relating to those matters. It is apparent that the discovery sought by the plaintiff-petitioner in the *Munger Case* related almost exclusively to the profits made by the defendant-respondent out of the business done by it in alleged infringement of the patent in suit, and that that discovery sought only the production of the intimate details of the defendant-respondent's business which might tend to establish the amount of such profits. That fact was emphasized by the brief for the respondent in opposition to the petition for a writ of certiorari in that case.

No evidence whatsoever relative to any profits made by the petitioner herein through the use of the inventions and of the improvements which the respondent herein claims should have been assigned to it by the petitioner in accordance with the provisions of the contract of October 2, 1916, is sought in this suit by the respondent's bill in equity for discovery. The opinion of the Circuit

Court of Appeals for the First Circuit furthermore expressly states:

> "The profits if any which the Sinclair Company made by using the Isom invention have no relevancy on the question of damages, and no discovery should be ordered in respect to them. The plaintiff is not suing as the equitable owner of the patent. Our previous decision precludes it from that position. *Jenkins Petroleum Process Co.* v. *Sinclair Ref. Co.* (D. C.), 32 F. (2) 247."

The *Munger Case* should have been decided by the Circuit Court of Appeals for the Second Circuit, therefore, and the petition for a writ of certiorari in that case might have been denied, on the ground that none of the evidence sought by the bill of discovery therein was relevant or material to establish the damages, if any, recoverable in the action at law in aid of which the discovery was sought, because the profits made by the defendant-respondent in that case would not have been the measure of, or evidence tending to establish, the amount of the damages sustained by the plaintiff-petitioner on account of the alleged infringement.

The respondent's brief in opposition to the petition for a writ of certiorari in the *Munger Case* stated that the *only* proposition of law decided by the Court of Appeals, upon the basis of which it rightly affirmed the District Court in dismissing the bill for discovery, was that the petitioner therein could not, in aid of an action at law, have discovery of facts material only to the question of damages, until after the petitioner should have established a cause of action giving him a right to the relief asked. The meaning of that statement is clarified and emphasized in the section of the respondent's brief in the *Munger Case* which stated the facts and quoted portions of the opinions in *Rawes* v. *Chance*, 7 Reports Patent Cases, 275, 281, *Parker* v. *Wells*, L. R. 18 Ch. Div. 477,

Fennessy v. *Clarke*, 37 Ch. Div. 184, and *De La Rue* v. *Dickinson*, 3 K. & J. 388, and then stated:

"From this review of the English authorities it is clear that until after the plaintiff has *prima facie* established his *title to the relief claimed*, a bill for discovery of facts material only to the question of damages is premature and will be denied. * * *"

The respondent's brief in the *Munger Case* next stated the facts and quoted parts of the opinions in *United States* v. *Bitter Root Co.* 200 U. S. 451; *Sugar Beet Products Co.* v. *Lyons Co.* 161 Fed. 215, and *Eibel Process Co.* v. *Remington-Martin Co.* 197 Fed. 760, and then stated:

"The above are the only references we have been able to find in the federal courts relevant to the proposition for which the petitioner here contends. They, and the abundance of English precedents, are unquestionable authority for the action of the Court of Appeals in affirming the District Court in dismissing the bills for discovery on the ground that they are premature and that the defendant should not be compelled to submit to an examination as to profits, before a *prima facie* case has been made as to the defendant's liability. * * *"

The same propositions were urged by the respondent in the *Munger Case* in its brief as the appellee in that case in the Circuit Court of Appeals, and the same American and English authorities were relied on to support those propositions. The respondent herein therefore submits that the opinion of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* should be interpreted with reference to the propositions which were urged by the prevailing party in that court, and in the light of the earlier opinions which supported those propositions. As so interpreted the *Munger Case* did not hold that equity never allows discovery with reference to the question of the amount of the damages

recoverable in an action, but only held that on the facts disclosed by the record in that particular case, the discovery sought by the plaintiff-appellant-petitioner was premature. As so interpreted, the decision of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* does not in any way conflict with the decision of the Circuit Court of Appeals for the First Circuit in this case, as, in accordance with the propositions and with the authorities referred to above, and which must have been the basis for the decision in the *Munger Case*, the respondent herein is entitled to the discovery sought by the bill in equity herein.

The respondent already has made a *prima facie* case which entitles it to the verdict of the jury on the issues in the pending action at law in aid of which discovery is sought, namely, on the issues as to whether or not the petitioner has breached the contract of October 2, 1916, as alleged in the declaration, and, if so, as to the amount of the damages which the respondent has suffered on account of that breach. All preliminary questions in that action at law have been heard and have been determined. (38 F. (2d) 820.) The petitioner has filed its plea to the respondent's declaration in the action at law, and the respondent has joined issue on that plea, and, therefore, that action at law certainly, without any further proceedings therein, next is about to come on for trial to a jury on those two issues.

The evidence taken in the original suit in equity for specific performance of the contract of October 2, 1916, is evidence in the pending action at law. 28 U. S. C. Sec. 397, (Judicial Code, Sec. 274 (a)). The Circuit Court of Appeals for the First Circuit could not have remanded the original suit in equity to the District Court with instructions to permit the respondent to amend its bill in equity for specific performance of the

contract of October 2, 1916, into a declaration at law for damages for the breach of that contract, without holding affirmatively that the evidence introduced in the original suit in equity makes a *prima facie* case which now entitles the respondent to go to the jury even if no other or additional testimony be introduced at the trial of the pending action at law. The respondent, therefore, has satisfied the condition which the respondent in the *Munger Case* claimed is a prerequisite to the right to discovery. Because of the difference between the facts in the two cases, the *decision* of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* does not conflict with the *decision* of the Circuit Court of Appeals for the First Circuit herein, because the respondent herein already has established a *prima facie* case which entitles it to have its case submitted to the jury.

The fact that the jury will not consider the question of the damages unless and until it has found in favor of the respondent on the preliminary question of the liability of the petitioner to the respondent, does not alter the fact that in an action at law to a jury the preliminary question of liability and the consequential question of damages are issues which must be tried together and which must be submitted together to the jury. There is no possible proceeding by which the verdict of the jury to which the pending action at law will be submitted, first could be secured on the question whether the Sinclair Company breached the contract of October 2, 1916, by refusing to assign the Isom application or invention or patent to the Jenkins Company; by which the respondent then could have an opportunity to develop the evidence necessary to prove the amount of the damages by filing a bill of discovery, and by which there finally would be a second presentation to the jury

on the question of the amount of the damages to be awarded to the respondent.

Even in accordance with the decision in the *Munger Case*, as interpreted in the light of the principles established by the authorities which were submitted in support of the positions of the prevailing party in that case, the respondent herein is entitled to the discovery which is allowed in accordance with the opinion of the Circuit Court of Appeals for the First Circuit, because the respondent herein already has made out a *prima facie* case which entitles it to go to the jury for one trial and determination of the issues of the petitioner's liability and of the amount of the damages, and because therefore the discovery allowed herein cannot be claimed to be premature.

The Decision of the Circuit Court of Appeals for the First Circuit in This Case Does Not in Any Respect Conflict With the Decision of the Circuit Court of Appeals for the Second Circuit in the Loose Case.

The petition for certiorari herein (p. 6) alleges that the decision of the Circuit Court of Appeals for the First Circuit in this case is in direct conflict with the decision of the Circuit Court of Appeals for the Second Circuit in *Loose* v. *Bellows Falls Pulp Plaster Company*, 266 Fed. 81. The *Loose Case* undoubtedly was decided correctly in accordance with long established principles of equity practice, but the principles which were determinative of the *Loose Case* are not in any way involved in the decision of the Circuit Court of Appeals for the First Circuit which sustains the right of the respondent herein to maintain its bill in equity for the discovery of evidence relative to the amount of the damages recoverable in the pending action at law.

Loose v. *Bellows Falls Company* was a suit in equity for the recovery of royalties of fifty cents per ton which were alleged to be due to the plaintiff in accordance with the provisions of a patent license agreement with the defendant on all the defendant's production of plaster containing wood pulp. The bill also prayed for a discovery of the records of the corporate defendant so as to ascertain the quantity of plaster containing wood pulp which had been made and sold by the defendant and on which the royalties were alleged to be payable, for an accounting of the royalties, and for a decree for the royalties found to be due.

The Circuit Court of Appeals for the Second Circuit reversed the decree of the trial court because it found that equity did not have jurisdiction over the suit because the plaintiff sought merely to recover money computable with certainty as soon as the number of tons of plaster was ascertained. The court stated:

> "The method of recovering royalties being the same here as it would be if defendants were licensees, it is settled that a bill merely to get unpaid royalties will not lie. *Keyes* v. *Eureka, etc. Co.* 158 U. S. 150, 15 Sup. Ct. 772, 39 L. Ed. 929; *Heckscher* v. *Pennsylvania, etc., Co.* (D. C.) 205 Fed. 377, and cases cited."

With reference to the argument that the court of equity had jurisdiction of the suit because the bill of complaint asked discovery, the court stated:

> "Chancery grants discovery when the law affords no adequate remedy to extract from a defendant facts in his exclusive possession which are a part of or constitute the cause of action. But mere difficulty of proving his case will not confer on a plaintiff the right to file a bill. *United States* v. *Bitter Root Co.* 200 U. S. 472, 26 Sup. Ct. 318, 50 L. Ed. 550. Equity will not aid law to ascertain damages by entertaining a bill for discovery. *Munger* v. *Firestone, etc., Co.* 261 Fed. 921, ... C. C. A. .....

> A *fortiori* will it not retain a bill when the discovery desired has no other purpose than the liquidation of damages. Such is the present case; for there is no mutuality in the account. The cause of action rests on unquestionable written documents, and the only purpose of a bill in equity rather than a declaration at law is to avoid the trouble of proving before a jury, by the use probably of R. S. § 724 (Comp. St. § 1469), the number of tons made and sold by defendant."

It is clearly apparent that the question of the right to maintain a bill in equity for the discovery in advance of trial of evidence relative to the damages recoverable in a pending action at law was not in any way involved in the decision in the *Loose Case* and that the portion of the opinion in the *Munger Case* which is quoted in the opinion in the *Loose Case* did not have any bearing whatsoever on the question before the court for decision.

It always has been the established and undisputed rule that if a bill in equity for relief and for discovery fails as to the relief it also necessarily fails as to the discovery. *United States* v. *Bitter Root Co.* 200 U. S. 451; 18 C. J. pp. 1060-1061 and cases cited in note 58, and pp. 1072-1073 and cases cited in note 41, and *Safford* v. *Ensign Manufacturing Company*, 120 Fed. 480. In accordance with the same principle it was the established rule in the old equity practice in England that if a demurrer to the relief were sustained no right remained to the discovery sought in the same bill relative to the relief. Hare on Discovery, p. 6, and cases cited in note "o" on that page.

The necessity for the application of the principle referred to above in the practice in the United States courts is explained in the opinion of the Circuit Court of Appeals for the Fourth Circuit in the *Safford Case* as follows:

> " 'In reality, what is wanted here is rather a dis-

covery than an account. Undoubtedly, a simple bill for a discovery might have been sustained in aid of a suit brought or to be brought at law, unless section 724, Rev. St. (U. S. Comp. St. 1901, p. 583), renders such bill unnecessary; and the point here is whether this can be sustained as a bill for discovery and relief. Such bills have been sustained in various jurisdictions, apparently through a misapplication of the maxim that equity, having assumed jurisdiction of a cause for one purpose, will retain jurisdiction to grant relief; but the whole practice seems to be clearly opposed to the principle, and to the established English practice, after which the federal equity practice is modeled. 1 Story, Eq. Jur. (13th Ed.) p. 78, note on Jurs. for Dis.; 2 Am. & Eng. Enc. Law, 199, note 6. But, however this may be in state jurisdictions, it has been held by the highest federal authority that 'the Constitution, in its seventh amendment, declares that in suits at common law, where the value in controversy shall exceed $20, the right of trial by jury shall be preserved. In the Federal Courts this right cannot be dispensed with, except by the assent of the parties entitled to it, nor can it be impaired by any blending with a claim properly cognizable at law of a demand for equitable relief in aid of the legal action or during its pendency. Such aid in the federal courts must be sought in separate proceedings, to the end that the right to a trial by jury in the legal action may be preserved intact.' * * *"

Hare on Discovery (p. 3) states:

"That a demurrer, which is good to the relief prayed, is a defence also to the discovery."

And on page 6 states:

"Since this period (the decision in *Price* v. *James*, 2 Bro. C. C. 319 in 1788) the rule has been acknowledged and adopted in a long current of authorities, that, to support a general demurrer to a bill seeking both discovery and relief, it is sufficient to show that the plaintiff is not entitled to the relief which he prays; and that, therefore, the addition of a prayer for relief to a bill seeking discovery will render that discovery dependent upon the title to relief."

From the statements quoted above it is clearly apparent that no discovery of any kind whatsoever could have been allowed because of any prayer in the bill of complaint in the *Loose Case*, because that bill of complaint sought both relief and discovery and because there was no jurisdiction in equity over the relief sought. The *Loose Case*, therefore, except for the unnecessary repetition of the statement which had been made in the *Munger Case*, does not have any bearing one way or the other on the question which is presented for determination in this case.

Early American and English Cases and Authorities Relative to the Right to Discovery Are Applicable to the Determination of the Respondent's Right to the Discovery Sought Herein Irrespective of Any Changes in the Procedure for Obtaining Discovery.

There are very few opinions of the courts of the United States which directly discuss the question whether a court of equity may allow discovery of facts and of documents which relate solely to the question of the damages recoverable in an action at law. That condition, however, appears to be due primarily to the fact that the principles and the practice of equity relative to discovery have been so well established for so many years that this question has not been raised or discussed, either in the opinions of the courts or in the works on equity pleading and practice, even though some confusion and uncertainty as to the law was caused by the opinions of the Circuit Court of Appeals for the Second Circuit in the *Munger* and in the *Loose Cases*. The earlier authorities, however, state in the clearest and most unequivocal manner the propositions on which the respondent relies and which were accepted and approved by the Circuit Court of Appeals for the First Circuit.

The petitioner heretofore has attempted in its argument to support the proposition that the adoption of the new equity rules established a new practice and new principles relative to discovery and that the early authorities on the subject of discovery and the English cases in which that subject is discussed are not informative as to the principles which should govern the decision as to the right of the respondent herein to maintain this proceeding in equity for discovery in aid of the pending action at law.

As a preliminary matter, therefore, the respondent respectfully submits that it repeatedly has been held that Equity Rule 58 was intended merely to change the procedure with reference to obtaining discovery and that *that rule was not intended to change the long-established rules with reference to the subject matter of such discovery.* Equity Rule 58 was taken in substance from Order 31 of the English Equity Rules of Practice, and the construction and application of the English rule in the many applicable English cases are informative as to the construction and application of Equity Rule 58 and as to the discovery which may be obtained in accordance therewith. *P. M. Co.* v. *Ajax Rail Anchor Co.* 216 Fed. 634; *Luten* v. *Camp*, 221 Fed. 424; *J. H. Day Co.* v. *Mountain City Mill Co.* 225 Fed. 622; *F. Speidel Co.* v. *N. Barstow Co.* 232 Fed. 617; *Wolcott* v. *National Electric Signaling Co.* 235 Fed. 224; *Marquette Mfg. Co.* v. *Oglesby Coal Co.* 247 Fed. 351; *Goodrich Zinc Corporation* v. *Carlin*, 4 F. (2d) 568; *Beacon Folding Machine Co.* v. *Rotary Machine Co.* 17 F. (2d) 934, and *Byron Weston Co.* v. *L. L. Brown Paper Co.* 13 F. (2d) 412.

It similarly appears from many of the authorities cited hereinafter, that the Judicature Acts in England made an alteration of procedure merely, and not an al-

teration in the law and doctrines of discovery which had been established theretofore in the Court of Chancery.

The Law and Practice of Discovery (Peile, London, 1883) states:

> "The Judicature Acts make an alteration of procedure merely, and not an alteration of the law, and if there was no right to file a bill of discovery, or to administer interrogatories before the passing of these Acts, there is no such right now. Similarly, they do not enable a party to decline answering an interrogatory or giving discovery on any ground on which he could not have declined doing so before. The right of discovery remains the same. Where there is any conflict or variance between the rules (*i. e., doctrines*) of equity, and the rules of the common law with reference to the same matter, the rules of equity are to prevail unless otherwise provided; consequently, the law and doctrines of discovery are now the same as they formerly were in the Court of Chancery, and the decisions of that Court should be looked to in order to ascertain the principle on which the Court is now to act." (pp. 4-5)

In *Saunders* v. *Jones*, 7 Ch. Div. 435, the court stated:

> "The right of a plaintiff in equity to discovery in my opinion has undergone no change from the earliest time from which the procedure of this Court can be traced."

It also is well established that the equity jurisdiction conferred on the courts of the United States is the same that the high court of chancery in England possessed. *Payne* v. *Hook*, 7 Wall. 425.

It therefore is apparent that irrespective of the changes which have been made in the practice relative to discovery in this country by the equity rules and in England by the Judicature Acts, no change has been made since the earliest days in the principles relative to the matters concerning which discovery may be had and

to the time at which discovery should be allowed relative to any issue. The discovery obtainable by means of the procedure provided for in equity cases by the equity rules, and the discovery obtainable by means of a bill of discovery in aid of a pending action at law, of course differ only as to procedure, and not at all as to the substantive rights involved. As there are no opinions of the courts of the United States which are directly applicable to the question here under consideration, other than the opinions which have created the alleged conflict between the Circuit Courts of Appeals for the First and for the Second Circuits on account of which presumably the writ of certiorari herein was allowed, it therefore is necessary to resort to the early opinions and authorities on the question of discovery to determine which of those opinions is correct in that it applies recognized and established principles of equity jurisprudence.

There do not appear to be any American authorities on the law of discovery which discuss the questions which are here under consideration. However, although the chapter on bills of discovery in Mr. Justice Story's *Commentaries on Equity Jurisprudence* (Fourteenth Edition) does not contain any discussion on the point here under consideration, nevertheless on page 519 the author states:

> "On the subject of discovery I beg leave to refer the reader to the very able work of Mr. Wigram on Points of Discovery, and of Mr. Hare on Discovery. In these two works the subject seems completely exhausted."

The Respondent Is Entitled to Discovery from the Petitioner of Facts and of Documents Which Are Relevant and Material to Any Issue or Question of Fact Which Will Be Tried and Submitted to the Jury at the Trial of the Pending Action at Law.

The authorities which are in point on the question under consideration, and especially the English authorities, establish conclusively that the proper determination of the question as to whether discovery should be allowed with reference to any particular issue or question of fact in a suit or action, does not in any way depend upon or require any consideration of the character or nature of the issue or question of fact as to which the discovery is sought;—that is, as to whether the particular discovery sought relates to the issue of the plaintiff's right or title or to the issue of the amount of the damages to which the plaintiff may be entitled. Irrespective of the character of the issue or question of fact concerning which discovery is sought, *the discovery should be allowed if, but only if, that particular issue or question of fact next is about to come on for trial.*

A Treatise on Discovery of Evidence by Bill and Answer in Equity, by Thomas Hare (Second American, from the last London Edition, 1849), states:

> "* * * The object of equity in enforcing discovery is to possess the plaintiff of the evidence which may tend to make available the right upon which he insists. All the facts or evidences in the knowledge or possession of the defendant material to the matters in dispute, must fall under some or one of three heads of description. They are,—*first*, evidence which may tend to sustain the plaintiff's case;—
>
> It is the fundamental principle of the doctrine of discovery, that a defendant in equity must disclose all the evidence which the plaintiff demands, and which may tend to support the plaintiff's case. To

the discovery of all the evidences which fall under the first of the foregoing heads of description, the plaintiff is therefore entitled upon the general principle." (p. 186)

In Chapter V, *Of the Purpose for Which Equity Assumes Jurisdiction to Compel a Discovery Merely*, Mr. Hare states:

"To administer to the ends of justice, without pronouncing any decision upon the rights of the parties, by possessing the plaintiff, who appears to have a legal or equitable right, of that evidence which is necessary to make a legal or equitable right available, equity will compel either party to a suit or action to confess or deny upon oath his knowledge of the facts alleged, which tend to sustain the case of the party seeking the discovery. It is given either because the plaintiff cannot otherwise prove the facts, or in aid of proof." (p. 110)

In *Points in the Law of Discovery*, by James Wigram (First American from the Second London Edition, 1842), the following propositions which are supported by exhaustive arguments and by references to many authorities are stated:

"First Proposition. *The pleadings in a cause and rules of practice, unconnected with the laws of discovery, determine* a priori *what question or questions in the cause shall first come on for trial. And the right of a plaintiff to discovery is in all cases confined to the question or questions in the cause, which, according to the pleadings and practice of the courts, is or are about to come on for trial.*" (p. 17)

* * * * *

"48. The object of a court of equity in compelling discovery, is, to enable itself or some other court to decide on matters in dispute between the parties, and the right to discovery is limited by the purpose with reference to which alone it is conferred, and will not, for that reason, extend beyond the exigencies of the question or questions about

to be tried. To determine what such question or questions may be, the ordinary rules of practice (unconnected with the laws of discovery) must be separately consulted. By these rules, if the defence be so framed as to raise an issue in law only, as by demurrer, the plaintiff will not be entitled to any discovery. If an issue or issues of fact be raised by the defence, (as by plea), the point to which the attention of the pleader will then be directed must be—what question or questions in the cause will first come on for trial? for, to such question or questions alone will the object of the court in compelling discovery apply. Where the defence therefore is made by plea, the plaintiff will not be entitled to any discovery which may not be necessary for the trial of the plea itself. Where the defence is by answer, the rules of equity (as a general proposition) put the parties in a different position. By these rules, a defendant who defends by answer, carries all the questions in the cause to trial simultaneously. * * *" (pp. 25-26)

* * * * *

"SECOND PROPOSITION. *It is the right, as a general rule, of a plaintiff in equity to exact from the defendant a discovery upon oath as to all matters of fact which, being well pleaded in the bill, are material to the plaintiff's case about to come on for trial, and which the defendant does not by his form of pleading admit.*" (p. 47)

* * * * *

"* * * Bythe first proposition, the '*plaintiff's case*,' must for the present purpose be a case which, according to the state of the pleadings and the practice of the court, is about to be tried. This, indeed, is involved in the terms of the second proposition.

94. Next, the '*plaintiff's case*,' must be a case (positive or negative) *made by the bill*. This is of necessity; for, by a settled rule of pleading, a point *not* made by the bill cannot be the subject of interrogation in the bill." (p. 54)

* * * * *

"* * * Now, the '*plaintiff's case*' (in the sense in which the words are here used) is that case

upon which the parties are about to go to trial. It follows, then, that discovery, which is not material to the proof of that case, is not within the scope of this proposition, however it may otherwise be *connected* with the subject of the suit. * * *" (p. 158)

With reference to the situation when a defendant has answered Mr. Wigram states:

"* * * And as all the points in the cause will thus come on for trial *simultaneously*, the right of the plaintiff to discovery will of necessity attach upon them all." (p. 80)

The Principles and Practice of Discovery, by Edward Bray (London, 1885), Introductory Chapter, *As to the Definition or Function of Discovery*, states:

"The right of discovery is the right by which a party to some proceedings (actually commenced or contemplated) before a civil court is enabled, before the determination of any matter in question in those proceedings, to extort on oath from another party to those proceedings—(1) all his knowledge, remembrance, information and belief (of facts: Redes. Pl. 34: Spence, Eq. Jur. 677: *Flight* v. *Robinson*, 8 Beav. p. 33: not of matters of law: see *post*, p. 115) concerning the matter so in question; (2) the production of all documents in his possession or power relating to such matter." (p. 1)

In Chapter I, *The Extent or Scope of the Right*, Mr. Bray states:

"In an action for relief the court has power to enforce in favour of a party to that action from an opposite party all discovery relating to any matter in question between them in that action.

A party to an action for relief is entitled as of right to have from the opposite party in that action all discovery material for the determination of any matter in question certainly about to come on for trial between them in that action." (p. 11)

After quoting the propositions of Mr. Wigram which have been quoted hereinbefore, Mr. Bray discusses fully

the modern practice in England relative to discovery and the differences in formal matters between that practice and the earlier practice, stating:

"* * * A defendant to an action is not now obliged to turn himself into a plaintiff, and file a bill in order to get discovery. Secondly, it is desired to emphasize more markedly the distinction between discovery required for the determination of an issue about to be tried, and that required only if the party succeeds in that issue, whether as being part of the relief sought, or as assisting him in his decree, or whether as being required for the determination only of some secondary issue. Discovery of the former kind is the party's absolute right: discovery of the latter kind may be for the time being withheld at the court's discretion. Under the old chancery practice, as will be seen (*post*, Chap. II), the distinction between these two kinds of discovery, though recognized in principle (see Wigr. Pl. 90), could not be carried into practical effect with the same freedom as is possible under the present procedure, unless the defendant were able by demurrer or plea to arrest the trial of the secondary issues, or the other matters to which the discovery related." (p. 12)

* * * * *

"Now, if it is impossible to say what matters of fact will be in question in the action, or if there is no matter of fact about to be in question in the action at all, it would seem to follow logically that no discovery of any kind can be had. And this is so generally in practice. Until statement of claim (in an action which requires a statement of claim) delivered (and sometimes even until statement of defence) it is generally impossible to say whether any matters of fact will ever be in question at all, or at any rate in what precise shape they will be presented. There will therefore generally be no right to discovery (by a plaintiff and of course not be a defendant) at that stage of the action: * * *" (p. 13)

* * * * *

"Now, under the old chancery practice, the dis-

covery given by a defendant was combined with his defense to the action, and formed practically a part of the pleadings under the name of the answer. In any treatise on discovery, therefore, it was essential to enter somewhat fully into the rules of pleading. And further, the only ways in which any preliminary issues of law or of fact could be raised were by demurrer or plea. Such was the technical strictness of procedure, that if once these stages were passed by, and a party submitted to answer, it was held that he must answer fully, that is, to the whole bill. If a party wished to say, 'There is a preliminary point which must be decided in your favour before you are entitled to put me on my defence in respect of this issue and get discovery in relation thereto,' he could in strictness only say so on demurrer or plea. When once the stage of answer was reached, all issues stood on the same footing; none could be classified as preliminary: see Wigr. Pl. 44, 48-52, 266: *Lancaster* v. *Evors*, 1 Ph. 349: *Swinborne* v. *Nelson*, 16 Beav. p. 427: *Taylor* v. *Milner*, 11 Ves. 42: and see *post*, p. 30. Under the present procedure discovery is separated entirely from the pleadings, and facilities are afforded by the rules of the Jud. Act for raising preliminary issues, both of law and fact, at various stages of the proceedings, and postponing all discovery not required therefor: see *post*, Chap. II.

But if no legal preliminary objection can be raised, and the stage of the action at which discovery is sought is proper, any objection must be founded upon the nature of the particular discovery sought. For, it being no longer possible to say either that it is not known what matters of fact will be in question, or that there is no matter of fact about to be in question, or that there is no matter of fact about to be in question in the action at all, it can only be urged that the particular discovery sought does not relate to the matters of fact which are about to be in question in the action, or is objectionable on other internal grounds. If the discovery required is relevant to the issues of fact about to be raised then, subject to established exceptions (see *post*, Bk. II), it must be given. If the party does

not choose to raise any objection which he might raise to the issue itself, he cannot raise such objection to giving the discovery relevant to the issue. The objection is to the issue being raised, and not to the discovery. If he intends to allow the issue to be raised, the giving of the discovery follows as a matter of course: he cannot withhold from the adversary the means of proving his case upon that issue: see *Morgan* v. *Harris*, 2 B. C. C. p. 123: *Dell* v. *Hale*, 2 Y. & C. C. C. p. 4: *post*, p. 19: and *Lyell* v. *Kennedy* (cited *post*, p. 392)." (pp. 14, 15, 16.)

A substantially similar discussion and analysis as to the principles which determine when discovery should be allowed with reference to any particular issue in a suit or action is found in *The Law and Practice of Discovery* (Peile, London, 1883) in the section entitled "Of the Objection that the Discovery Sought is not Immediately Material." In that section Mr. Peile states (pp. 26-29):

"The court, however, in its discretion, was in the habit of drawing a line between *accounts* which were necessary for the decision of questions which might occur at the hearing, and those which could in no event be required until the judgment came to be worked out, and could have no bearing on the issue in the action, as in cases of alleged partnership or agencies, or actions for infringement of patents, where the partnership or infringement was denied, and the discovery could not affect the question whether the plaintiff was an agent or partner or not, or whether or not there had been an infringement; again, *where the questions of liability generally and of damages were severable, discovery which was material to the latter question only, would not be given before the hearing.*" (Italics ours.)

The authorities quoted above clearly do not give any support whatsoever to the distinction between "issues" and questions of fact which was made in the *Munger Case*, and the Circuit Court of Appeals for the First

Circuit clearly was correct in not being impressed by that attempted distinction. Such phrases as "evidence which may tend to sustain the plaintiff's case" (Hare); "all matters of fact which are material to the plaintiff's case" (Wigram), and "any matter in question between them (the parties) in that action" (Bray), clearly establish that equity allows discovery relative to any question of fact concerning which evidence may be introduced at the trial.

The Amount of the Damages Is an Issue in the Pending Action at Law and the Respondent Is Entitled to Discovery of Facts and of Documents Which Are Relevant and Material to That Issue.

The propositions stated in the opinion in the *Munger Case*, that the amount of damages is never at issue in a case; that the amount of damages [illegible] issue, but follows the determination of the issues [illegible] case, and that discovery is not granted relat[illegible] of the damages recoverable because it is granted only in aid of the issues, is not supported by any authority cited in the opinion and it is thoroughly untenable and unsound. The amount of the damages recoverable in actions at law for damages almost invariably is at issue and the amount of such damages almost invariably is one of the most important issues in any action at law.

The petitioner's brief (pp. 48-57) entirely fails to cite any authority which in any way supports the propositions which were stated by the Circuit Court of Appeals for the Second Circuit in the *Munger Case* other than the opinion of the District Court in this case and the dissenting opinion of Judge Wilson in the Circuit Court of Appeals for the First Circuit. Each of those opinions relied entirely on the earlier opinions of the Circuit

Court of Appeals for the Second Circuit in the *Munger Case* and in the *Loose Case*.

The petitioner's brief (pp. 55-56) attempts to create the impression that *The Principles and Practice of Discovery*, by Edward Bray, supports the conclusion that discovery should not be allowed with reference to the consequential question of the amount of the damages until the preliminary question of liability has been determined. The quotation from the work by Mr. Bray which is quoted in the petitioner's brief (pp. 55-56) is found in the chapter on Consequential Discovery in which the author states in a preliminary paragraph that consequential or subordinate or dependent discovery is material or relevant discovery. (p. 24) Immediately preceding the paragraph quoted in the petitioner's brief, the following paragraph is found:

> "I. *The Present Practice.*
>
> The present practice is regulated by Ord. XXXI. r. 20. 'If the party from whom discovery of any kind or inspection is sought objects to the same, or any part thereof, the court or a judge may, if satisfied that the right to the discovery or inspection sought depends on the determination of any issue or question (including mixed questions of law and fact: Lindley, L. J. in *Tasmanian, &c. Co.* v. *Clark*, 27 W. R. p. 678) in dispute in the cause or matter, or that for any other reason it is desirable that any issue or question in dispute in the cause or matter should be determined before deciding upon the right to the discovery or inspection, order that such issue or question be determined first, and reserve the question as to the discovery or inspection.' By rule 6 (see *post*, p. 108) a party may object to answer an interrogatory on the ground that it is not sufficiently material at that stage. And by rule 12 (see *post*, p. 155) the application for an affidavit of documents may be adjourned, or the affidavit limited to particular classes of documents, on grounds of the same kind." (pp. 24-25.)

Immediately following the paragraph quoted in the petitioner's brief the following paragraphs are found:

> "Under the old chancery practice the court was much embarrassed in these cases of consequential discovery by the technical rule (see *ante*, p. 14) which required a party submitting to answer, though he altogether denied the plaintiff's title, to answer fully, even as to consequential matters, as of account: see Lord Selbourne in *Elmer* v. *Creasy*, L. R. 9 Ch. pp. 71-72: and, according to some judges, though not others, to produce all relevant documents as a part of such full answer: see *post*, sect. 2, as to the old chancery practice.
>
> Under the provisions of the above rules no technicalities of this kind compel the court to order discovery which is not required for the determination of the immediate issue before the court. (p. 25.)

It therefore is apparent that the only authority on which the petitioner herein relies does not in any way controvert the propositions on which the respondent relies. The petitioner merely has attempted to apply a principle which is not applicable because of the differences in the facts involved. The statement by Mr. Bray which is quoted in the petitioner's brief relates only to the procedure in equity when the preliminary question of liability and the consequential question of the amount of the damages can be separated and can be brought on for trial at different times, so that discovery with reference to the consequential question of the damages is not necessary until the preliminary question of the liability has been determined. As has been stated hereinbefore, however, nothing can be more certain than that the respondent must present at one trial to a jury in the pending action at law all of the evidence on which it will rely to establish both the petitioner's liability on account of the breach of the contract of October 2, 1916, and also the amount of the damages which it has suffered on account of that breach.

The authorities and opinions which are referred to and are quoted hereinafter fully establish that the petitioner's contentions are unsound and that on account of the facts in the present case the respondent now is entitled to discovery relative to the amount of the damages recoverable in the pending action at law.

(1) English Authorities on the Right to Discovery Relative to the Amount of Damages or to Other Relief.

In *The Principles and Practice of Discovery*, Chapter II, "As to What is Relevant or Material Discovery," Mr. Bray discusses that question and refers to many decisions from which it appears conclusively that evidence relative to the question of the amount of a party's damages is relevant and material to the issues in a case and that discovery of such evidence should be allowed.

In Book II. *Objections to Discovery*, Chapter III. *Discovery of the Evidence of a Parties Case*, Mr. Bray states:

> "* * * It has been pointed out *ante*, p. 21 (and see the cases *post*), that the amount of the claim has been always considered in equity to be a matter in question and therefore a legitimate subject of discovery. * * *" (p. 470.)

The Law and Practice of Discovery, (Peile, London, 1883) Chapter V. *Objections to Discovery*, the sections entitled "On the objections that the discovery is immaterial and irrelevant," also establishes that evidence relative to the amount of the damages recoverable is material and relevant. That section states:

> "The relevancy or otherwise of the particular discovery sought must be tested by reference to the pleadings (if any), and the issues or questions raised thereby, the relief claimed, and a consideration of the evidence which could be given at the trial in support of the case of the party seeking it. Thus,

in an action for breach of promise of marriage, an inquiry as to the means and position of the defendant is relevant, as evidence thereof could be given at the trial, though in an ordinary action, it would be wholly beside the question; * * * For the purpose of determining the right to the discovery it will be assumed that the party will ultimately be found to be entitled to the relief which he seeks, since otherwise it would come too late to be of any use to him, and that the relief is properly asked. * * *"

Halsbury's "Laws of England" states:

"So, also, discovery bearing only on the question of damages or accounts, and not on the question of defendant's liability, where it is possible to deal separately with the questions of liability and of the amount of damages, will sometimes be postponed until the question of liability is determined. *But where the discovery is for the purpose of enabling the party to obtain complete relief at the trial, and to do away with the necessity of an account being taken subsequently, the court may refuse to postpone it.*" —11 Halsbury's Laws of England 52.

The Law of Discovery by R. E. Ross (Canadian Edition, 1912) states:

"Interrogatories to ascertain the relief claimed, including the amount of the damages, or other relief are legitimate." (p. 75.)

(2) English Opinions on the Right to Discovery Relative to the Amount of Damages or to Other Relief.

Pape v. *Lister*, L. R. 6 (Q. B.) 241 (1870) was an action at law for a breach of a promise to marry. Issue had been joined on the defendant's pleas when the defendant sought leave to inspect letters written by him to the plaintiff and also letters written by the plaintiff to him which he had returned to the plaintiff.

The Court stated:

"Lush, *J.*—I have consulted my learned Brothers,

> and the conclusion at which we have arrived is, that this rule must be made absolute. I do not agree with Mr. Wills' contention that 'relating to such action' means relating to the issues raised. *I think if documents relate to the amount of damages, that is quite sufficient.* Now, in the present case it is true that the defendant's own affidavit is very vague. But we must look at the nature of the action. In such a case the letters of the parties must have a bearing at least upon the damages. * * *" (Italics ours.)

Saunders v. *Jones*, 7 Ch. D. 435 (1877) was an action similar to the old common law action for wrongful dismissal. The plaintiff claimed under a contract of employment as salesman and manager in accordance with which he was entitled to a percentage commission on the gross returns of the business. The defendant claimed that the plaintiff had been discharged rightfully and counterclaimed for moneys received by the plaintiff and withheld from the defendant. The plaintiff sought by interrogatories to develop, among other matters, the amount of the gross business on which he was entitled to the percentage commission in accordance with the alleged contract of employment. The defendant declined to answer that interrogatory on the ground that the right to an account was disputed and that the plaintiff therefore was not entitled to that stage of the cause to have an account set out.

On the appeal from the order allowing the desired discovery the defendant-appellant contended that it would be decided at the trial whether any commission was payable, and that until that had been decided, the defendant ought not to be compelled to set out an account of the commissions. In sustaining the order for the discovery the Appellate Court stated:

> "With regard to the last interrogatory, the only thing asked for is the aggregate amount on which the commission is due. *If the Plaintiff succeeds in*

his contention that he is entitled to a fixed commission upon the amount, his having that amount admitted would enable him at the trial, without any further inquiry or litigation, to obtain a decree for the payment of that which is due to him. It would be impossible to differ from the Vice-Chancellor in holding this is not one of those cases in which it is oppressive or hard, or might lead to great inconvenience, for a party to be called on to give an account." (Italics ours.)

* * * * *

"The only remaining question is as to the 5th interrogatory. It seems to me most reasonable that the Plaintiff should be allowed to put that interrogatory. *If it had been a common law action he would undoubtedly have been entitled to put the question contained in that interrogatory, because in such an action he would have been bound to prove his whole case, and part of the case being that he was entitled to a commission on all moneys received in particular years, he would have had to prove what those moneys were,* and such an interrogatory, as an interrogatory directed to showing that the amount received was, would be allowed as a matter of course. * * *" (Italics ours.)

Owen v. *Morgan*, 39 Ch. D. 316 (1888) was an action for the recovery of certain sums which the defendant was claimed to hold as a trustee for the plaintiff and for the interest on those sums which had been received by the defendant and had been applied by him to his own purposes.

The plaintiff sought by an interrogatory to ascertain the amount of such interest and the defendant appealed from an order requiring an answer to the interrogatory. Counsel for the defendant-appellant contended that as the trust was disputed, the plaintiff had no right at that stage of the proceedings to ask for information as to the way in which the fund had been dealt with; that unless the trust was admitted there was a preliminary question

to be tried, and that the plaintiff was not entitled to information which would be of no use at that trial because it could not help him to obtain a decree.

In sustaining the order allowing the desired discovery, the Appellate Court stated:

> "* * * As, however, the Defendant does not admit that interest amounting to not less than £5 per cent. per annum has been received, I think the Plaintiff is entitled to an answer to the question, what amount of income was received from the £6,000 by *Hexel Morgan* in 1873, and in every subsequent year. *That I think is material, in order that the Plaintiff, if the Court decides the question of trust in her favor, may be able at the hearing to obtain an immediate decree for payment of the* £6,000 *with such interest as the Court may consider her entitled to.*" (Italics ours.)

Brown v. *Evered & Company*, 21 R. P. C. 501 (1904, Scotland) was an action for the infringement of a patent. The summons asked for the discovery of the defendant's books and records which would show the number of portable aseptic surgical stands manufactured by them during the continuance of the Letters Patent and of the prices charged and of the profits made by them thereby, such stands being the alleged infringing articles. The summary of the facts and of the arguments in the report states:

> "*Inter alia* the Defendants' business books were called for. *These were wanted for the purpose of proving the amount of the damages or profits concluded for.* Counsel for the Defenders contended that the Pursuer must first prove the validity of his Patent and that there had been infringement; unless he proved this there would be no claim for damages or profits, and until it was proved the question of damages or profits did not arise." (Italics ours.)

Counsel for the plaintiff insisted that the discovery should be allowed because in Scotland it was the inva-

riable custom to take the whole proof at once. In sustaining the right to the discovery the Court stated:

> "The Defenders ask me to disallow the Specification *in toto* on the ground that the inquiry into profits and damages should be postponed until it is decided that the Pursuer's Patent is valid. I have no power to alter the interlocutor allowing proof; and I think I should be virtually altering it if I were to separate the proof allowed as to infringement from that as to damages or profits."

The opinion of the Court, Blackburn, Judge, in *Elkin v. Clarke*, 21 W. R. 447, states:

> "In this case it is unnecessary to decide the main question which has been argued and which arises under the following circumstances:—The action was brought to recover commission, and upon it two questions occur; one is whether the plaintiff has done work for the defendant so as to be entitled to recover anything; the other is, what should be the amount of the damages if he is entitled to recover something. If the cause were to go to trial, these things would in the ordinary course be determined at one and the same time, and any discovery as to the amount of damages would be too late afterwards. On the other hand, any such discovery granted before the question of liability was determined, must impose some trouble and annoyance upon the defendant, which would be entirely thrown away if the verdict was in his favor on the question of liability.
>
> The first point made by the defendant is, that, according to the rules which govern the courts of equity and of law, discovery is never granted to ascertain the damages until the right to damages is established. *Upon that point I express no opinion;* but what I do consider is this, that when the two questions can be severed, that should be done. According to the practice in equity, if a defendant chooses to separate the two questions by plea or demurrer, the question of damages is postponed until that of liability is settled; *if the defendant chooses to waive that opportunity, the general rule is that he must answer and make a discovery.* No doubt in

some cases where upon the answer it appears that the two questions can be separated, the court of equity has ordered it to be done. We are not bound to follow the rule of the courts of equity, but if we saw that their principle was sound and just we should apply it. In the present case defendant has offered to separate the two questions by letting that of liability go to a jury, and in the event of that being decided against him by referring the damages, granting to plaintiff an inspection of the documents he asks for. * * * It seems to me that, if the defendant consents to the reference, the inspection should not be granted, but I do not in any way decide the more general question."

Schrieber v. *Heyman*, 63 Law J. Rep. 749 (1894) was an appeal from a decision granting in part the plaintiff's application for the production of certain entries in the defendant's books. The action was brought to recover damages for wrongful dismissal and commissions earned under a contract appointing the plaintiff the sole agent for the sale of the defendant's goods in Great Britain and Ireland. The syllabus of the case states:

"*Where it is possible to deal separately with the questions of the liability of the defendant and of the amount of damages, the Court will not order the production of documents which will assist the plaintiff in establishing the amount of damages only, and which do not bear upon the question of the defendant's liability, until the question of liability has been determined.*"

The report of the case gives the following colloquy between the Court and counsel:

"*C. G. Ellis*, for the defendants.—The defendants ought not to be compelled to give inspection of their books until the question of liability is decided against them.

(Pollock, B.—How can the two questions of liability and of damages be severed? *Is not the plaintiff entitled to information as to the amount of damages before he goes to trial?*)" (Italics ours.)

Counsel for the defendant in this case apparently relied entirely on the decision in *Elkin* v. *Clarke* and the argument consisted of reading the opinion in that case. The opinion of the Court in allowing the appeal approved and followed the case of *Elkin* v. *Clarke*, and therefore it is apparent that the defendant in this case also offered to separate the issues of liability and of damages, and to consent to a reference for the ascertainment of the damages if the plaintiff secured a verdict on the issue as to the defendant's liability.

The only apparent and temporary conflict in the English law with reference to the propositions which have been stated hereinbefore was created by the opinion in *Adams* v. *Fisher*, 3 Myl. & Cr. 526. In that case the plaintiff alleged that the defendant Fisher, acting as his solicitor, had received various sums of money on account of an estate; that Fisher had failed to account for the sums received, and that by a fraudulent arrangement with the other defendant, Pinckard, Fisher had procured the execution of a power of attorney to Pinckard to collect the property and assets in question. The defendant Fisher denied that he had been retained by the plaintiff and alleged that he had acted solely as the attorney and solicitor for Pinckard, who had been authorized to represent the plaintiff, and that he had fully accounted to Pinckard on account of all the matters in question. The defendant Fisher admitted the possession of certain documents relating to the testator's estate and affairs, but submitted that he was not bound to produce them and that he was not accountable to the plaintiff. The court held that under the facts stated the plaintiff was not entitled to discovery as against Fisher, stating:

> "* * * Here the defendant has denied the plaintiff's interest; he has, on the record, stated that

which as it stands, in my opinion excludes the plaintiff from instituting this suit against him. As long as that stands, I think the plaintiff is not entitled to see the documents. (1)" (p. 549)

The effect of the decision in *Adams* v. *Fisher* and its inconsistency with the theretofore accepted rule that if a plaintiff answers at all, he should answer fully, is discussed at length in *Hare on Discovery*, Part IV, Chapter I, "Of The Rule in Chancery That a Defendant Who Has Submitted To Answer the Bill Mus. Answer Fully." (pp. 247-254)

Mr. Hare states that the cases in which the effect of *Adams* v. *Fisher* were discussed were those where the defendant had denied the title of the plaintiff and upon that denial had founded a refusal to set forth matters which would not establish the plaintiff's title but would be necessary to establish the extent of the claim if the title were established. The discussion then proceeds to illustrate how the full effect of the rule stated in *Adams* v. *Fisher* soon was obviated by the establishment of the practice of requiring that an answer should have the semblance of a plea, so that in practical effect the procedure thereon would be the same as though the defendant had filed a plea instead of an answer. The rule of *Adams* v. *Fisher* never was applied except when the issue of liability and the issue of damages could be tried separately.

In *Points in the Law of Discovery*, by Wigram, the author discusses the inconsistency in the decision in *Adams* v. *Fisher*, and in connection therewith clearly demonstrates the point which here is under consideration, namely, that the amount of the damages is an issue in the case in connection with which the plaintiff-respondent is entitled to discovery. Mr. Wigram states:

"154. In deciding whether a defendant shall be permitted by *answer* to protect himself against dis-

covery, in cases like *Adams* v. *Fisher*, the Court has four courses of practice open to it:—1, that of giving to the answer, to all intents and purposes, the force and effect of a demurrer or plea;—2, that of giving to the plaintiff the same full right of discovery before the hearing, as he would be entitled to, if his right to relief were admitted or proved, and the only question between the parties was the amount of his demand;—3, that of laying down some definite intermediate rule, by which the extent of a plaintiff's right to discovery, where by answer the defendant denies his right, may be determined;—and, 4, that of leaving the question undefined by any rule, except that which may be described as the 'discretion of the Court.'

155. With respect to the *first* of these courses, the author is not aware that it has ever been held in judgment, or suggested in argument, that a defendant can have the same full benefit of a defence by answer, as by demurrer or plea, in withholding discovery. In the case before suggested, of a bill for an account, if the defendant should plead the statute of limitations, or any plea in bar, he could not be obliged to give *any* answer to so much of the bill as related only to the plaintiff's original title to an account, for the plea would admit that. But, if he relied upon the same defence by answer, he would clearly (it is conceived) be bound to give a full answer to so much of the bill as related to the plaintiff's original title; for a defence by answer does not, even for the purposes of argument, admit any of the bill to be true, to which the admissions in the answer do not in terms apply. Again: in the case before suggested, of a bill for an account, the amount of the plaintiff's demand would be part of the '*plaintiff's case*.' If a release were pleaded, the plea would shut out all actual discovery, even an answer to the most simple and direct questions relevant to that amount. Now, it admits not of controversy, that if in the same case the defence be made by answer, the plaintiff may, by apt charges in his bill, compel the defendant to answer *specific* charges, stating or shewing the amount of the plaintiff's demand; and it is equally clear that a plaintiff,

who, by means of such specific charges, has got an admission with which he is satisfied, may take a decree at the hearing of the cause for the amount appearing by the answer to be due to him, instead of going to an account before the Master." (pp. 92-93-94)

* * * * *

"156. The *second* course above suggested, is that which the author had considered the rule of the Court prior to the case of *Adams* v. *Fisher*, but which that decision has undoubtedly displaced." (p. 95)

* * * * *

"158. First, as to principle. If a defendant who denies a plaintiff's right of suit may, as in *Adams* v. *Fisher*, insist by *answer* that he is not bound to give discovery upon points subordinate to the question of the plaintiff's title, (as the amount of his demand), some difficulty may reasonably be experienced in understanding how demurrers or pleas barring a plaintiff's right of suit should in practice have obtained a place among pleadings in equity. * * *" (pp. 95-96)

* * * * *

"159. In the cases which have most frequently, if not exclusively, given rise to discussions upon the point decided in *Adams* v. *Fisher*, the discovery against which the defendant has sought protection, has been discovery relevant only to the *amount* or *extent* of the plaintiff's demand, the validity of the demand itself being denied by the answer. It is certainly difficult to understand the principle, which, where the defence is by answer, denies the plaintiff's right to discovery material to the proof of the *amount* or extent of his demand. If the plaintiff may ask a decree at the hearing of the cause for payment of the amount admitted by the answer to be due to him, (which unquestionably he may do), and if, for the purpose of getting that admission, he may compel the defendant to answer specific questions applicable only to the amount of his demand (a power respecting which no doubt can exist), upon what principle shall he be denied discovery which

may be necessary to enable him to suggest those questions to the defendant, by means of which alone he can obtain the admission upon which a decree for immediate payment of his demand may be founded? The amount of the plaintiff's demand is a point in the '*plaintiff's case,*' upon which a decree may be made at the hearing. The admission of the defendant is evidence upon which that decree may be founded. Discovery from the defendant as to the account sought by the bill, and documents in his possession relevant to it, are material evidence by which the requisite admission may be obtained. Upon what principle can a plaintiff, who is permitted to make the immediate payment of his demand the subject of decree at the hearing of the cause, be deprived of any legitimate evidence by means of which the amount of that demand may be established? The effect of denying the plaintiff a right to such discovery, is either to deprive him of his right to a decree for payment at the hearing, or to compel him to take that decree upon imperfect evidence. In the case of a bill of discovery in aid of a trial at law, where the judgment upon the right and upon the amount of it, are contemporaneous, it would be difficult, if not impossible, to apply the rule." (pp. 97-98-99)

The technical rule of practice to the effect that a defendant must answer fully, if he answers at all, was changed by the Judicature Acts in England, and as is pointed out in the quotation from Bray on Discovery, which has been given hereinbefore, the present practice expressly provides that preliminary issues may be determined before a decision is given as to the right to discovery relative to the consequential issues. However, even before the passage of the Judicature Acts, the decision in *Adams* v. *Fisher* was disapproved by the opinion in *Swinborne* v. *Nelson*, 16 Beav. 416.

Swinborne v. *Nelson* was a bill for the infringement of a patent and which sought discovery as to all the alleged infringing articles manufactured by the defendants, of

the profits made thereby, of the names and addresses of the persons to whom sold, and of the prices at which sold. The defendant denied the novelty and utility of the plaintiff's invention and also denied infringement of the plaintiff's patent and claimed that the articles were manufactured in accordance with processes developed and patented by the defendant prior to the date of the plaintiff's patent. The defendant's answer claimed that the defendant was not bound to make the discovery sought by the bill and the plaintiff excepted to that part of the answer.

Counsel for the defendant argued that until the infringement of the plaintiff's patent had been decided the discovery sought by the bill would be immaterial and useless, relying on the cases which had held that where the title is denied, defendant is not bound to set forth the consequential accounts, relying especially on *Adams* v. *Fisher*.

The court stated that it was generally understood that *Adams* v. *Fisher* held as a broad principle that the right of a plaintiff to see documents in the possession of the defendants and relating to the subject matter of the suit, must depend upon the plaintiff's having established his right to relief in that suit or on a failure of the defendant to dispute that right, and that until the decision in *Adams* v. *Fisher* the rule always had been considered to be that if a defendant answers at all he must answer the whole of the bill after stating that all the authorities on the question had been carefully examined, the court stated:

> * * * I am disposed to believe, that, in truth, the decision in *Adams* v. *Fisher* was intended by Lord *Cottenham* to be limited to withholding the production only of the documents, which could not assist the Plaintiff in making out his title to the relief he sought; at least the observation made by

his Lordship, respecting the admission of Counsel to the question put by the Court, seems to point to this result. However this may be, the authorities which relate to the subject were not commented upon or brought to the attention of the Court; and after the most careful consideration which I am able to give to this subject, I am of opinion, that if the case of *Adams* v. *Fisher* goes beyond the point I have last suggested, it is not in accordance with the long line of authorities before decided in this Court. As I have therefore to choose between that case and other cases decided by equally high authority, I feel myself compelled to follow those which are, in my opinion, consistent with the principles upon which pleadings in equity can alone be safely and clearly established."

(3) English Opinions Relative to the Postponement of Consequential Discovery Until Preliminary Issues Have Been Determined.

As stated hereinbefore, the appellee-respondent in the *Munger Case* urged that the discovery sought by the appellant-petitioner in that case was premature because the issues of the validity of the petitioner's patent and of the infringement of the patent by the respondent had not been determined, and that it could not be known that it would be necessary to consider the question of the amount of the damages. In support of that proposition the appellee-petitioner in the *Munger Case* relied in its briefs on the following English authorities:

Rawes v. *Chance*, 7 Reports Patent Cases, 275, was an action for the infringement of a chemical patent for improvements in obtaining and treating sulphur. The defendant's answer denied infringement and the validity of the plaintiff's patent. An inspection of their plant and process was allowed by the defendants. The plaintiff then sought by interrogatories to obtain from the de-

fendants an inspection of their books containing tests or analyses of the materials operated upon in the processes carried on by the defendants at their works in alleged infringement of the plaintiff's patent.

The discovery sought by the interrogatories in question related to the issue of infringement. In holding that the interrogatories should not be answered until the validity of the plaintiff's patent, which had been denied, had been determined by the court, the court stated:

> "What we think we ought to do is this:—we ought to do what the Judge has really done, though he has not put it in his order, to refuse this application without prejudice to any application which the Plaintiff may make during the trial for the production of these analyses. Then that will enable full justice to be done. I do not express any opinion that it will be necessary in order to make out the Plaintiff's case, either as regards a good patent or infringement, that those should be produced, but if the Judge, having regard to the way in which the case is argued before him, thinks it is, then he will order production, *and then give such time as the Plaintiff will require in order that his experts may fully examine these analyses and ascertain what result is derived from them. In my opinion the appeal fails.*" (Italics ours.)
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>
> "* * * *We must bear in mind that these Defendants are not shrinking enquiry. They are not taking the line, 'You shall not see anything;' they have thrown everything open which, in fairness, an honorable litigant can possibly desire to see. I am very much impressed with that, and I am not at all satisfied that the production of these things would be of the slightest use upon the preliminary question, Is the patent good or bad?* It may be, or it may not, on the other question of infringement. The two are very much mixed up together. The result of the whole of the argument and of the evidence, I think, is this: that the learned Judge was quite right and quite justified in saying, 'This discovery which you

now want is not material at this stage of the proceedings, and I will not make an order for it.' But I quite agree that we ought to protect the Plaintiff by adding that this order is without prejudice to any application he may make, in case it should be necessary at the trial." (Italics ours.)

* * * * *

"We ought to wait until we can be sure, if there is always an opportunity of doing it in time for the purposes of justice. *It would be otherwise if the Plaintiff was in this position that if he did not get it now he never could get it at all.* That is not true. At any stage of a litigation down to the trial, and in the middle of the trial, as soon as it becomes reasonably clear that this production will be wanted for the purposes of the Plaintiff's case—I assume that there is no other ground of protection open to the Defendants—we have not heard any—therefore, we need not discuss the question; but if it becomes necessary, and there is no other objection, then, at the trial, the learned Judge would be able to deal with this, and to do all that is necessary therefore to protect the interests of the Plaintiff. * * *" (Italics ours.)

Parker v. *Wells*, Law Rep. 18 Ch. Div. 477, was an action in which the plaintiff alleged that the defendant was a trustee for certain moneys and in which the plaintiff sought discovery, among other things, of the amount of the profits made by the employment of the money in trade. The defendant denied the trust and refused to answer the interrogatories. In holding that the defendant should not *at that time* be required to answer any of the interrogatories, the court stated:

"The first objection is to answering interrogatories 1 and 3. Now, in deciding whether discovery ought to be given, *we must first consider whether it will help the Plaintiff at the trial. If it will not, but will only be of use if the Plaintiff obtains a decree, then, having regard to the discretion given to the Court by Order XXXI, rule 19, we must consider whether it is fair that the Defendant should be*

obliged to give it at this stage of the proceedings, or whether to compel him to give it would be oppressive. As regards interrogatories 1 and 3, both those questions must be answered adversely to the Plaintiff." (Italics ours.)

* * * * *

Fennessy v. *Clark,* 37 Ch. D. 184 (1887) was an action for an injunction and for damages for false representations by the defendant that the shoe polish made and sold by the defendant was the polish made by the plaintiff, or in the alternative for an account of all sales of goods by the defendant with labels calculated to deceive the purchasers, and of all the profits from such sales. The plaintiff appealed from an order dismissing a summons for answers to interrogatories relative to the number of sales and to other facts bearing on the issue of the profits made by the defendant from the alleged wrongful acts.

The defendant contended that the discovery would be premature until after the plaintiff's title to relief and the defendant's liability had been established. This defendant also contended that even if the question of damages would be a question for trial under the order entered in the case, the rule against giving discovery with a view to the amount of damages to be possibly recovered, before any liability on the part of the defendant to pay damages had been established, should prevail. The court stated:

"The discovery asked for relates to what will be the amount of damages to which the Plaintiff would be entitled if he succeeds in establishing that the Defendant has been so acting as to entitle him (the Plaintiff) to damages or to an account of profits. The order of June last was not for trial of the action, but for trial of the questions of fact arising in the action. *Now, I do not say that the damage sustained by the Plaintiff is not a question of fact,* but is it a question of fact within the meaning of that order? At the time when the order was made the

Plaintiff had not elected to waive his account of profits. Would it then be right to allow the Plaintiff to get a jury to determine what damages he was entitled to before he has made his election between damages and profits? Should the jury award him a large sum for damages he would probably accept it, but if they gave him a small sum only, then he might say, 'No, I would rather have an account of profits, as I see by the Defendant's books that he has made a much larger sum.'

By 'questions of fact' I think that the order means questions of fact on which the Plaintiff's title to relief depends. (Italics ours.)

De La Rue v. *Dickinson*, 3 K. & J., 388 (1857) was a bill for an injunction to restrain the alleged infringement of a patent. The plaintiff sought by interrogatories to obtain an account of the alleged infringing machines in the defendant's possession; of the envelopes manufactured by such machines; of the sales of such envelopes, and of the profits made by the defendant by the use of the machines. The defendant by answer denied that the machines were similar in principle or action to those described in the plaintiff's specification, and claimed that for that reason answers to the interrogatories should not be required. In holding that the interrogatories should not be answered at that time, the court stated:

"In a patent case, if the Plaintiff once establishes the fact of infringement, *his right to a decree involving full discovery of all matters in the nature of those here inquired after, is clear;* everything therefore shewing, or merely tending to shew, the fact of infringement, must, of course, be set forth in the answer, to the full extent of the interrogatories. (Italics ours.)

* * * * *

"If, at the hearing, the Plaintiff's title to an injunction is clearly established, he will then be as clearly entitled to the whole of this discovery under the decree. But, even in that case, an answer will

not be necessary, because, without an answer, the Plaintiff will obtain all he seeks, in the ordinary course of the inquiry in chambers."

It is apparent from all of the authorities and opinions which have been referred to hereinbefore that there is no support whatsoever for the statements of the Circuit Court of Appeals for the Second Circuit in the *Munger Case* and in the *Loose Case* to the effect that the amount of damages is not an issue, that discovery is granted only in aid of the issues and that therefore discovery never is granted in aid of establishing the amount of the damages, and that the refusal of the Circuit Court of Appeals for the First Circuit to apply those statements to this case is fully supported by principle and authority.

(4) Decisions of Courts of the United States Which Have Allowed Discovery Relative to the Amount of Damages.

There are several opinions of the courts of the United States from which it is very apparent, although there is no specific discussion of the question in the opinions, that those courts have assumed and have held that under proper conditions and circumstances, a bill in equity may be maintained for the discovery of facts and of documents which relate to the issue of the amount of the damages recoverable in a pending action at law as well as to any other issue in the same action.

The opinion in the *Munger Case* states that no decision upon the precise question had been called to the attention of the court, although it was raised but not decided in *Colgate* v. *Compagnie Francaise Du Telegraphe De Paris A New York*, 23 Fed. 82. The *Colgate Case* was a bill of discovery in aid of a pending action at law in the same court for damages for the infringement of a patent,

the invention of which related to cable telegraphs. After stating the facts relative to the issues in the action at law the bill of discovery alleged (p. 82):

> "* * * that the complainant is unable to prosecute his action at law without a full discovery of the method of insulation of the said lines of cable telegraph, for the reason that such lines are under water and under the control of the defendant, and in localities unknown to the defendant, and are not open to his inspection; *and that he cannot prove with accuracy and completeness the damages that he has suffered by reason of the infringement without the discovery by the defendant* of the locality and length of said lines, the number of the conducting wires composing said lines, and without the inspection of certain contracts in defendant's possession which disclose the mode and materials of the construction of its cables; all of which matters and things are solely within the knowledge of the defendant, and unknown to the complainant. * * *" (Italics ours.)

It is clearly apparent from the above statement that a primary object of the bill of discovery in the *Colgate Case* was to secure evidence which related solely to the amount of the damages in the action at law for infringement. In a careful and exhaustive opinion Judge Wallace overruled a demurrer to the bill of discovery, and it appears from his opinion that he could not have entertained any doubt as to the right of the plaintiff in that case or in any proper case to obtain discovery as to facts and as to documents which relate to the issue of the damages as well as to the other issues in an action.

Guyot v. *Hilton*, 32 Fed. 743, was an application under Section 724 to require the plaintiff to produce for the inspection of the defendants, in order to enable them to prepare for trial, all the business books of the firm for which he was the official liquidator. The discovery sought in that manner very apparently related almost entirely to the amount of the damages recoverable in the

action. Judge Lacombe denied the application, and, following the decision of Judge Wallace in the *Colgate Case*, held that the proper practice to obtain such relief is by bill of discovery. *Guyot* v. *Hilton* is quoted and approved in the opinion of this Court in *Carpenter* v. *Winn*.

In *Pressed Steel Car Company* v. *Union Pacific Railroad Company*, 240 Fed. 135 and 241 Fed. 964, the court sustained the right of the plaintiff to maintain a bill of discovery in aid of an action at law for the breach of a contract. In the statement of the case the court summarized the allegations of the bill of discovery as follows (p. 136):

> "* * * The bill also alleges that the plaintiff cannot safely prosecute the action without full discovery in respect of all freight cars built for it or its subsidiaries during the period of the contract, of the drawings which show the construction of such cars, the specifications and contracts for their construction, the bids submitted by all bidders for such contracts. The contract provided that the plaintiff should have all contracts for such construction in which its bids were not more than $10 per car above the lowest bidder, and the plaintiff sues for its lost profits on such contracts. This claim is the basis for asking for such bids and contracts. Appropriate interrogatories are annexed to the bill to call forth this information."

It is clearly apparent from the above statement and from the interrogatories which were annexed to the bill that the discovery which was sought by the plaintiff in the *Pressed Steel Car Company Case* related very largely to the issue of the amount of the damages recoverable by the plaintiff.

Safford v. *Ensign Manufacturing Co.* 120 Fed. 480, was an appeal from an order dismissing a bill for relief and for discovery. The bill alleged a license agreement for the use by the defendant of a certain patented

device on cars manufactured by the defendant, and an agreement to make reports and to pay quarterly royalties at the rate of $2 per car. The bill alleged that the device had been used on many cars, but that reports had not been made and royalties had not been paid, and prayed for a discovery of all the transactions had under and relating to the license agreement and for a decree for the amount found due as royalties. The plaintiff contended that as the court of equity had jurisdiction for the purpose of enabling the plaintiff to obtain discovery, it should retain jurisdiction for the purpose of affording complete relief. The defendant contended that the remedy at law was complete and adequate, as the claim was only for money due under a contract, and that Section 724 of the Revised Statutes made it unnecessary for the plaintiff to resort to equity to obtain the defendant's books or other writing which contained the desired information.

The Circuit Court of Appeals for the Fourth Circuit adopted the opinion of the trial court as its opinion. That opinion states:

> "'In reality, what is wanted here is rather a discovery than an account. Undoubtedly, *a simple bill for a discovery might have been sustained* in aid of a suit brought or to be brought at law, unless section 724, Rev. St. (U. S. Comp. St. 1901, p. 583), renders such bill unnecessary.'" (Italics ours.)

It is clearly apparent that the discovery sought by the plaintiff in the *Safford case* related exclusively to the issue of the amount of the damages recoverable by the plaintiff, and that both the Circuit Court of Appeals for the Fourth Circuit and the District Court of the United States for the Southern District of West Virginia, expressly held that discovery relative to the issue of the amount of damages should be allowed in a proper case

when sought by a bill of discovery in aid of an action at law.

(5) Opinions of State Courts Which Have Allowed Discovery Relative to the Amount of Damages.

McKinnon-Young Company v. *Stockton and Lane*, 55 Fla. 708, 46 Sou. 787 (1908) was an appeal from an order in an action instituted by a petition which alleged a wrongful and unwarranted trespass upon certain properties, and a wrongful and unauthorized conversion of said properties or parts or proceeds thereof. The order, entered on an application of the plaintiffs, required the defendants to state and discover the turpentine, rosin, naval stores and other products, if any, taken by them from the trees on the lands described in the petition, and the amounts and values of said turpentine, rosin, naval stores and other products, if any, so taken from those lands. The principal reason assigned as error in making the order in question was:

> "(5) Because no order as to discovery should be made until the equities of the case have been settled after answer by defendants, and said order is erroneous in so far as it calls for a discovery prior to the settlement of the equities in the controversy."

With reference to that principal question on the appeal the court stated:

> "* * * Such discovery upon the appellants' part is proper in order to advise the court of the extent, if any, of their interference with the properties in the custody of the court, and becomes necessary in order to enable the court intelligently to redress the injury, if any has been done. Because they are required as part of their answers to such petition to discover the *quantity* and *value* of the property taken by them, if any, from said lands, is by no means a prejudgment of their liability therefor to such receivers. Such *liability* will be a ques-

tion to be determined in the ultimate trial of the proceeding upon the petition, answers and proofs submitted thereon."

Wells v. *Holman*, 115 S. C. 443, 106 S. E. 224 (1921), was an appeal from an order requiring the defendant to produce his books and papers. The order in question was entered in an action for the recovery of an agreed percentage of the net profits of certain farming and mercantile operations. The Court held that the plaintiff was entitled to an inspection of the books, documents and papers made by or for the defendants in the ordinary course of the farming and mercantile operations in question and which would show the facts and figures upon which a settlement between the parties necessarily would be based. The Appellate Court held that the order was justified under Section 427 of the South Carolina Code which provides for the inspection on motion of books, documents and papers "containing evidence relating to the merits of the action or the defense therein". The term "relating to the merits" does not appear to be any more broad than the term "issues in the case" and therefore this opinion of the Supreme Court of the State of South Carolina is direct authority for the right to have discovery of facts and of documents which relate solely to the amount of damages recoverable in an action.

Sherwood Bros., Inc. v. *Yellow Cab Company*, 283 Pa. 488, 129 Atl. 563 (1925) was an appeal from an order dismissing a bill for discovery in aid of a pending action at law for an alleged breach of a written agreement by the defendant to purchase from the plaintiff all the motor fuel consumed by the defendant in the conduct of its business in Philadelphia. The bill in equity alleged that discovery was needed of the extent of the defendant's business during the period specified in order

to prepare a proper statement of claim in the action at law. In reversing the order dismissing the bill of discovery and remanding the cause with directions that a decree be entered, requiring the defendant to make full and complete answers to those interrogatories, the Appellate Court stated:

> "* * * By Section 13 of the Act of June 13, 1836, P. L. 784, 789, it is provided that equity shall have jurisdiction 'so far as relates to * * * the discovery of facts material to a just determination of issues, and other questions arising or depending in the said courts.' As applied to the pending case, this means facts which will be 'material' in the trial of the suit at common law. No other meaning has ever been given to the word 'material,' when referring, as here, to the obtaining or production of evidence, whether at the trial, or by bills of discovery, depositions, commissions or letters rogatory. In all such instances, facts are 'material' which tend to establish any of the issues raised, although each of them may be but weak links in the chain of proof leading up to the recovery sought. The statute does not otherwise limit the right to have discovery of such material facts; nor do the courts, unless it should clearly 'appear on the face of such a bill that the claim * * * in aid of which discovery was sought, could not be maintained because forbidden by law, or contrary to public policy, or for other such conclusive reason': *Lesser* v. *Henry*, 50 Pa. Superior Ct. 440, 443.
>
> Since plaintiff is seeking, by its action at law, to recover damages for defendant's failure to purchase, between the dates specified, all the motor fuel used in its Philadelphia business, necessarily a knowledge of the extent thereof, as inquired of in the first two interrogatories, is most 'material,' for otherwise it can neither properly prepare its statement of claim, nor successfully prove its case at the trial. * * *"

Southern Bag & Burlap Company v. *Boyd*, 38 S. W. (2d) 565, (Texas 1931), was decided on an application

for a writ of mandamus. The principal question under consideration by the Appellate Court was whether the lower court properly had entered an order for the production of certain books and records. That order was entered on an application of the plaintiff in an action for commissions alleged to be due on the sale of certain products manufactured and sold by the defendant. The application set forth that the defendant was in possession of all the books and records containing all information relative to such sales and showing the amount of the commissions earned by the plaintiffs and that the plaintiffs had no way of proving the amount of the commissions to which they were entitled without the production of those books and records. In sustaining the order for the production of the books and records, the Appellate Court stated:

> "(2, 3) It is the settled law of this state that respondent had jurisdiction in the premises to make a proper order to the end that plaintiffs might get the information here sought from the books and records of relator, and this court will not interfere unless there is an abuse of the trial court's discretion. *Rush* v. *Browning, District Judge,* 103 Tex. 649, 132 S. W. 763, 765.

* * * * *

Brown v. *E. H. Clement Company,* 203 N. C. 508, 166 S. E. 515, was an appeal from an order for the examination of certain officers and employees and of the books and records of the defendant. The action in aid of which the discovery was ordered was to recover on a contract for the payment by the defendant of a certain percentage of the profits made on certain construction work. The discovery was sought solely to ascertain the exact amount to which the plaintiff claimed to be entitled under the contract. The discovery was allowed prior to the filing of the complaint in the action in accordance with the provisions of the North Carolina Stat-

ute. In dismissing the defendant's appeal the Court stated:

> "* * * The contention of the defendant that no examination of its officers and employees, or of its books and records, should be had, until the issue raised by its denial of the contract as alleged by the plaintiff has been tried and determined favorably to the plaintiff, cannot be sustained. * * *"

In New York, bills of discovery in aid of other actions have been abolished by Statute, and the Code of Civil Procedure, Section 803, of that State provides that Courts of Law may direct the production for inspection before trial of books, documents and other papers "relating to the merits" of the action. In *Hofman* v. *Seixas*, 33 N. Y. Supp. 23 (1895) the Court held that discovery is allowable in an action at law, in order to enable the plaintiff to ascertain the amount for which he should demand judgment. *Hofman* v. *Seixas* was an action on an agreement entitling the plaintiff to a percentage on purchases by the defendant. The plaintiff's motion set out that he had no means of knowing what purchases were made by the defendant, and so was unable to state the amount to which he was entitled, and the order required the defendant to permit the plaintiff to inspect the ledger and sales books containing entries in reference to the purchases by the defendant. The opinion of the Court quoted *Veiller* v. *Oppenheim*, 26 N. Y. Supp. 1051, as follows:

> "In an action at law it will be necessary for the plaintiff to state the amount which he seeks to recover, and, unless such amount can be ascertained from an inspection of the books, plaintiff will not be in a position to know just what sum he is entitled to sue for."

White v. *Wilson*, 37 N. Y. Supp. 193, was an action to recover royalties on the productions by the defendant of a libretto. In affirming with modifications an order

denying a motion to vacate an order for examination before trial, the Court stated:

> "The only point upon which the plaintiff really requires the testimony of the defendant is with regard to the number of representations given by the latter of the rival versions of his assignor's librettos. The plaintiff cannot know the facts on this head, nor has he the means of readily proving them. The defendant, of course, knows just when and where the productions in question were given. If the plaintiff is right in his general contention, he will be entitled to the specific sum of $50 per week for every week during which the defendant produced other adaptations of the pieces already adapted by plaintiff's assignor under the contracts sued upon. The examination should, however, be limited to this one specific subject."

Burns v. *Lipson*, 204 N. Y. App. Div. 643 (1923) was an action for damages by reason of the plaintiff's discharge from the defendant's employ. The complaint alleged a contract of employment whereby the plaintiff was entitled to 15 per cent of the net profits earned in the business during the year. On the appeal from an order granting a motion of the plaintiff, which prayed for a discovery and inspection of certain books and papers of defendants alleged to contain entries on the subject matter of the profits earned by the defendants in their business, and which also alleged that it would be impossible to prove such profits without a prior discovery and inspection, the Court stated:

> "I think the motion for discovery was properly granted. It seems to be settled even under the Code of Civil Procedure that in an action of this character plaintiff is entitled to discovery where the application therefore is in good faith to enable him to prove net profits which under his contract of employment he is entitled to share. (*Thomas* v. *Waite Co.*, 113 App. Div. 494; *Webb* v. *Hedge Co.*, 133 id. 420; *Aprea* v. *Cipolla*, 187 id. 894; *Gemson* v. *Perreault*, 201 id. 649.)

In *Bell* v. *Gilbert Paper Co.* (117 Misc. Rep. 610; affd., 201 App. Div. 867) it was held that under the Civil Practice Act and rule 140 of the Rules of Civil Practice the former provisions of the Code and General Rules of Practice requiring plaintiff to show materiality and necessity no longer obtain, and that the burden of showing that the discovery and inspection was not necessary was upon the adverse party. In that case it is said: 'Books and documents are, therefore, permitted to be discovered and inspected * * * as justice requires, providing they relate to the merits of the action.' The order for discovery and inspection should be affirmed."

(6) The Inconsistency Between the Opinion in the Munger Case and the Opinion of This Court in Carpenter v. Winn.

Carpenter v. *Winn*, 221 U. S. 533, was an action at law in which the plaintiff obtained an order from the trial court which required the defendants to produce before the trial of the action certain books and papers said to contain evidence material to make out the plaintiff's case. The order in question required the defendants to produce "all of their books, papers, writing, account books, day books, blotters and journals, registers, cash books, check books, contracts, contract slips and memoranda, made or received by them, their agents and employees, which contain any memoranda or any business transaction" relating to the plaintiff during the years 1905 and 1906 and particularly pertaining to a certain brokerage transaction in cotton. (p. 534)

The defendant insisted that it should not be required to produce the evidence specified in the order prior to the trial of the action at law and judgment was entered by default in favor of the plaintiff.

In the opinion by Mr. Justice Lurton, this court stated:

"The question is whether, under § 724 of the Re-

vised Statutes (U. S. Comp. Stat. 1901, p. 583), a court of law may compel one party to an action to produce, in advance of the trial, books and papers for examination and inspection of his adversary.

Section 427 is substantially the 15th section of the judiciary act of 1789 (1 Stat. at L. 82, chap. 20, U. S. Comp. Stat. 1901, p. 583). It reads as follows: 'In the trial of actions at law, the courts of the United States may, on motion and due notice thereof, require the parties to produce books or writings in their possession or power, which contain evidence pertinent to the issue, in cases and under circumstances where they might be compelled to produce the same by the ordinary rules of proceeding in chancery. * * *'

The purpose of the provision is to provide a substitute for a bill of discovery in aid of a legal action. It may be invoked only when the document sought 'contains evidence pertinent to the issue,' and 'in cases and under circumstances when they might be compelled to produce the same by the ordinary rules of proceeding in chancery. * * *'' (p. 537) (Italics ours.)

* * * * *

''b. 'In the trial' implies a restricted use of the procedure as compared to a bill of discovery.

Under the ordinary rules of procedure in chancery to obtain a discovery of evidence material to the maintenance or defense of an action at law, such evidence must, in the very nature of things, result in production before the 'trial' at law. Such procedure is still open *if it is desired* to have the evidence produced before the trial. A court of equity does not lose its jurisdiction to entertain a bill for the discovery of evidence or to enjoin the trial at law until obtained, because the powers of the courts of law have been enlarged so as to make the equitable remedy unnecessary in some circumstances. See the very instructive discussion of the question by Judge Wallace in *Colgate* v. *Compaignie Francaise du Telegraphe*, 23 Blatchf. 86, 23 Fed. 82. (Italics ours.)

The statute may therefore be well regarded as affording a short and quick way of obtaining docu-

mentary evidence for use 'in the trial' of an action at law, leaving the parties to a bill of discovery *if they desire the production before the trial for the purpose of preparing for it.* (pp. 539- 540) (Italics ours.)

* * * * * * *

* * * The party against whom such an order is sought has the undoubted right to make every objection which he could make were he a defendant in equity to a bill seeking discovery of the same evidence; *for the right to compel production is no broader under the statute than under a discovery proceeding in equity.* This would include the right to insist that the case, the circumstances, and the purpose to be advanced, were not such as to justify the order. He must also be heard, if he desires, upon the pertinency of the evidence which is being sought, and the right to insist that he be not required to disclose that which pertains only to his side of the case, but only that which is material to make out the case of the party seeking the order." (Italics ours.)

The above statements in the opinion of this court in *Carpenter* v. *Winn* were not quoted or referred to by the Circuit Court of Appeals for the Second Circuit in the opinion in the *Munger Case.* The respondent respectfully submits, however, that the opinion in *Carpenter* v. *Winn* authoritatively determines that the respondent is entitled to maintain its bill in equity for the discovery by the petitioner of documents which relate solely to the issue of the amount of the damages recoverable in the pending action at law in aid of which the discovery is sought. Although, of course, *Carpenter* v. *Winn* relates only to the production of documentary evidence, the right of the plaintiff to secure the admission of material facts relative to the same issue by means of the defendant's answers to interrogatories, in accordance with the well established principles of equity relative to dis-

covery, must be equally as broad and as unlimited as to the right to secure the inspection of documents.

It is apparent from the statement of the facts in *Carpenter* v. *Winn*, that the books, records, memoranda and other documents which the defendant therein was required to produce by the order entered by the District Court under Section 724, related almost exclusively, if not exclusively, to the question of the damages recoverable by the plaintiff in that action at law. The statements in the opinion which are quoted above, therefore clearly and necessarily imply that this court held that that evidence relative to the issue of the amount of the damages recoverable, properly could have been secured in advance of the trial by a bill in equity for discovery in aid of the pending action at law, provided only that it was reasonably necessary or desirable to secure such production prior to the trial rather than at the trial.

Section 724 of the Revised Statutes (28 U. S. C. Sec. 636) has for its purpose the provision for discovery in actions at law of the kind obtainable, in equity cases, by proper proceedings in equity. *Carpenter* v. *Winn, supra,* directly so held. *Carpenter* v. *Winn* held that Section 724 requires the production of books or writings *only in cases and under circumstances where a party might be compelled to produce the same by the ordinary rules of proceeding in chancery.*

Therefore, if the respondent has the right under Section 724 to secure the production of the documentary evidence specified in the interrogatories here under consideration, *at the trial* of the pending action at law in aid of which this proceeding in equity was instituted, the respondent must have the right to maintain its bill in equity for the discovery of the same documentary evidence *prior to the trial,* provided only that the bill in

equity for discovery sufficiently alleges such circumstances and conditions as make it reasonably necessary or desirable to secure the production prior to the trial, for the purpose of preparing for it, rather than at the trial. The allegations of the bill in equity for discovery herein clearly satisfy that requirement.

Conversely, if the respondent does not have the right to maintain its bill in equity for discovery, because the documentary evidence specified in the interrogatories is relevant and material only to the question of the amount of the damages to which the respondent is entitled, the respondent cannot have the right to secure the production of the same documentary evidence at the trial under and in accordance with Section 724, because Section 724, in accordance with its express provision, only is applicable "in cases and under circumstances where they (the parties) might be compelled to produce the same by the ordinary rules of procedure in chancery" by which of course must be meant the ordinary rules of procedure in chancery by Bill of Discovery, and because this court stated in *Carpenter* v. *Winn* that the purpose of "the provision (Section 724) is to provide a substitute for a Bill of Discovery in aid of a legal action."

For the reasons stated above, it is certain that the discovery which may be obtained by motion and notice under Section 724, must be identical *in its scope* with the discovery which may be obtained by a Bill of Discovery. The only difference between the two methods of obtaining discovery is that a Bill of Discovery must be used if it is necessary or desirable to obtain discovery prior to the trial rather than at the trial, whereas a motion under Section 724 is the proper manner of securing discovery at the trial.

The petitioner, the Sinclair Refining Company, is

very inconsistent when it insists that the respondent has a plain, adequate and complete remedy at law to secure the production of the documentary evidence which it requires by proceeding under Section 724, without admitting that the respondent has the same right to secure that material by its bill in equity for discovery, provided only that the allegations of the bill in equity disclose that it is reasonably necessary or desirable to secure the production prior to the trial rather than at the trial.

The respondent respectfully submits that the identity between the scope of the relief obtainable by way of the production of documentary evidence under Section 724, and by a bill in equity for discovery, clearly demonstrates that there is no merit whatsoever to the contention that discovery in equity should not be allowed either as to facts or as to books and writings which relate to the question of the amount of the damages which are recoverable in any action in aid of which discovery is sought.

II.

The Opinion of the Circuit Court of Appeals for the First Circuit in This Case Does Not Conflict With the Opinion of the Circuit Court of Appeals for the Seventh Circuit in Bradford v. Indiana Harbor Belt Railroad Company on the Question of What Constitutes a Sufficient Showing of Necessity for Discovery in Aid of an Action at Law.

The petition for certiorari herein alleges (p. 14) that there is a conflict between the decision of the Circuit Court of Appeals for the First Circuit in this case and the decision of the Circuit Court of Appeals for the Seventh Circuit in the Bradford case, arising out of a dif-

ference of opinion as to when the requirement of a sufficient showing of necessity for discovery has been met. In any event, this alleged conflict relates only to different opinions as to the sufficiency of two entirely different sets of facts to meet the objection in each suit that the bill of discovery therein could not be maintained because the plaintiff had a plain, adequate and complete remedy at law, and does not relate to any conflict of opinion as to the applicability of the legal principles in accordance with which the cases were decided.

The Circuit Court of Appeals for the Seventh Circuit in *Bradford* v. *Indiana Harbor Belt Railroad Company*, 300 Fed. 78, sustained a decree dismissing a bill of complaint for discovery in aid of an action at law for damages alleged to be due to the plaintiff of seventy-five cents for each car and of one dollar for each locomotive moved over a railroad on the plaintiff's property. The bill of discovery alleged that the material issue in the suit at law was the occupation and *extent of the use* of the property by the defendant and the amount it charged and received therefor; that the defendant kept books of account and had papers and documents showing the *extent of the use* of the tract; and that the plaintiff had no means of ascertaining such facts except through the answers to the interrogatories appended to the bill. It is clearly apparent, therefore, that the discovery sought in the *Bradford Case* related almost exclusively, if not exclusively, to the question of the amount of the damages to which the plaintiff might be entitled in his action at law. It furthermore is clearly apparent that the plaintiff in the *Bradford Case* did not allege any facts whatsoever in the bill of discovery from which the court could have determined that there was no plain, adequate and complete remedy at law under Rev. Stat., Sec. 724 (28 U. S. C.,

Sec. 636), in that the desired evidence could not be obtained in a practically useful way under that statutory provision.

No bill in equity for discovery or for any other purpose can be maintained when there is a plain, adequate and complete remedy at law. *Scott* v. *Neely*, 140 U. S. 109; *Safford* v. *Ensign Manufacturing Company*, 120 Fed. 480; Rev. Stat., Sec. 723, (28 U. S. C. A. Sec. 384 and cases cited, notes 2 to 6 inclusive). The opinion of the Circuit Court of Appeals for the First Circuit in this case, after first holding that bills for discovery still lie in the federal courts, and that they have not been superseded by Section 724 of the Revised Statutes, stated that:

> "It devolves upon the party filing such a bill to show that there is real need of it and that the desired evidence can not be obtained in a practically useful way under Sec. 724." (R. 82.)

After a full discussion of the discovery sought by the bill in equity for discovery herein the court further stated that:

> "On the facts stated in the bill we think the plaintiff has made out a case warranting discovery along the lines above indicated." (R. 86.)

It therefore is apparent that the Circuit Court of Appeals for the First Circuit, having considered the allegations of fact in the bill in equity for discovery herein, determined that those facts satisfy the requirements stated by the court, and that the court found as a fact that the respondent would not have a plain, adequate and complete remedy at law by attempting to secure the same facts and documents by a proceeding under Section 724.

The Circuit Court of Appeals for the Seventh Circuit sustained the decree dismissing the bill of discovery in

Bradford v. *Indiana Harbor Belt Railroad Company* for the three following reasons:

> First, that if the ascertainment of the facts would be simple and would not involve complex and voluminous accounts, the ordinary processes of law would be sufficient and the extraordinary relief by discovery in equity would be entirely unnecessary, and that the plaintiff could invoke Sec. 724 of the Rev. Stat. and it would not be presumed that the District Court would deprive him of a reasonable opportunity to examine the books and documents before the trial was concluded. (300 Fed. 78, 80.)
>
> Second, that if it would be complicated, difficult and costly to establish the facts sought by the discovery, that condition was due entirely to the plaintiff's own carelessness or neglect of his rights so that it would not be equitable to permit him to impose on the defendant the expense and burden of making up the desired account. (p. 80)
>
> Third, that the defendant in its brief and argument had tendered to the plaintiff all the benefits of the Indiana Statutes with reference to the production of books and papers in advance of the trial for inspection by the opposite party, so that in effect the defendant voluntarily had offered to the plaintiff everything the plaintiff could have secured by answers to his interrogatories. (p. 81)

It is clearly apparent that no one of the reasons stated by the Circuit Court of Appeals for the Seventh Circuit for sustaining the decree of the trial court in *Bradford* v. *Railroad Company*, has any bearing whatsoever on any question here under consideration. If the Circuit Court of Appeals for the Seventh Circuit had entertained any idea whatsoever that the subject matter of the discovery sought by the plaintiff was improper because it related to the ascertainment of the amount of the damages, the court certainly would have so stated in its opinion, and probably would have made that fact the principal reason for affirming the decree. Finally, with reference to the third reason for the decision in the *Bradford Case*, the

petitioner herein, the Sinclair Refining Company, never in any way has offered to facilitate the respondent's preparation of any part of the evidence necessary to maintain the pending action at law in aid of which this proceeding in equity was instituted.

The petitioner's brief in support of the petition for certiorari (pp. 16, 17) argues that the only specific allegations in the respondent's bill in equity for discovery as to the necessity for discovery prior to the trial rather than at the trial, relate only to the requests for discovery as to the number of barrels of gasoline produced in and as to the number of barrels of oil charged into the petitioner's Isom cracking stills; that the court held that discovery as to those matters should not be allowed at the present time; and that, therefore, the bill should have been dismissed on the ground that it does not allege facts which affirmatively show that the discovery ordered by the Circuit Court of Appeals for the First Circuit should be allowed in advance of the trial.

The fifth ground stated in the petitioner's motion to dismiss the bill in equity for discovery herein was that the respondent has a clear, plain and adequate remedy at law. (R. 33.) As stated in the petition for a writ of certiorari herein, (p. 5), the objection that the Jenkins Company has a clear, plain and adequate remedy at law was not passed upon by the District Court. The petitioner did not move to have the District Court correct what the petitioner now alleges to have been error; the petitioner did not except to that alleged error or take any appeal to the Circuit Court of Appeals for the First Circuit on account of that alleged error, and the petitioner did not urge before the Circuit Court of Appeals for the First Circuit that the motion to dismiss should have been granted on the ground that the respondent has

a plain, adequate and complete remedy at law in that the facts alleged in the bill in equity for discovery herein do not establish that the respondent has any reasonable necessity or desire to have the discovery before the trial of the pending action at law rather than at the trial of that action.

Even if the petitioner's contention with reference to the interpretation of the allegations of the bill in equity for discovery herein is sound, the issue nevertheless is immaterial, as the respondent clearly would have been entitled to leave to amend the bill in order to supply any deficiency or any incompleteness in the jurisdictional allegations, if the District Court had sustained the motion to dismiss on the ground that the bill in equity for discovery herein does not sufficiently allege facts from which the court could determine that there is a real need for the discovery prior to the trial and that the desired evidence cannot be obtained in a practically useful way under Section 724.

However, the bill in equity for discovery alleges in paragraph 6 that the respondent cannot safely proceed to the trial of the action at law and cannot prove with any degree of accuracy and completeness at the trial the damages which the respondent has suffered by reason of the petitioner's breach of the contract, without the discovery sought by the bill (R. 4), and in paragraph 7 that the facts and documents concerning which discovery is sought are exclusively within the knowledge and exclusively and solely in the possession of the petitioner; that those facts and documents are material to the support of the respondent's case as stated in the declaration in the action at law, and that those facts and documents are not available to the respondent without the assistance of the court of equity. (R. 5.)

Furthermore, the statement in the opinion of the Circuit Court of Appeals for the First Circuit that facts as to the nature of the invention, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art, may be supplemented by opinion evidence of value, (R. 85), clearly indicates that an inspection of the drawings showing the particular character, type and construction of the petitioner's Isom cracking stills must be had prior to the trial in order that the respondent's experts may have an adequate opportunity to familiarize themselves as to the facts concerning which they will testify.

III.

The Decision of the Circuit Court of Appeals for the First Circuit That the Respondent Is Entitled to Introduce Evidence Such as Is Sought by the Bill of Discovery Herein as to the Results of the Isom Application and as to the Commercial Utility of the Invention of the Isom Patent as Shown by Its Use in the Oil Cracking Art or Industry Is in Accordance With the General Principles of Law.

The petitioner, the Sinclair Refining Company, consistently has endeavored in the District Court, in the Circuit Court of Appeals, in its brief in support of its petition for a writ of certiorari, and now in its brief for petitioner, to secure limitations on the respondent's right to introduce evidence on the issue of the damages which the respondent has suffered on account of the petitioner's breach of the contract of October 2, 1916, which, if established, certainly will make it very difficult if not impossible for the respondent to introduce evidence which will entitle the jury to return a verdict for any-

thing more than nominal damages, no matter how large the respondent's actual damages may have been. Briefly summarized, the petitioner's contentions and the results on the trial of the pending action at law if those contentions shall be sustained are as follows:

Any breach of the contract of October 2, 1916, occurred on September 10, 1917, when Edward W. Isom filed his application on which United States Letters Patent No. 1,285,200 later issued and when he assigned that application to the petitioner; the only measure of the damages for that breach of the contract is the *market value* of that patent application as of that date, and no evidence as to any matters or things of any later date can be introduced at the trial of the action at law even for the purpose of assisting the jury to ascertain the *market value* of that application as of that date

Those contentions, if sustained, would preclude the respondent from introducing at the trial of the pending action at law, not only all evidence as to the matters and things of which discovery is sought herein, but also all evidence of every kind and nature whatsoever as to the actual and practical utility and value of the inventions of the Isom patent as established by the construction and by the operation and by the extent of the operation and by the economy and the efficiency of the operation of cracking stills embodying those inventions, whether constructed and operated by the petitioner or by the respondent or by any other persons or corporations. Under those conditions, practically the only evidence which the respondent would be allowed to introduce to establish the value of the Isom application or patent as the measure of the damages to which the respondent is entitled, would consist of the purely theoretical and speculative opinions of experts based solely on a study of the

patent application and of the state of the art as of the date that application should have been assigned to the respondent.

The petitioner's contentions, if sustained, would place an unreasonably narrow construction on the contract of October 2, 1916. The important provision of that contract is that *any improvements, whether of a mechanical nature or in the process,* developed by the petitioner's engineers and experts in familiarizing themselves with the Jenkins apparatus and process, *should accrue to the Jenkins Company.* The provision with reference to the assignment to the Jenkins Company of any application filed to protect any such improvement is a subordinate provision of the contract which merely specifies one means for carrying out the principal provision. The respondent, therefore, should be permitted to introduce any and all evidence which is relevant and material on the issue of the *value of the inventions* for which Letters Patent of the United States were issued to the Sinclair Company as the assignee of Edward W. Isom, and the consideration of the jury should not be limited to the question of the *value of the application for a patent* which was filed by Edward W. Isom on September 10, 1917, and on which Letters Patent No. 1,285,200, dated October 19, 1918, thereafter issued. In accordance with the petitioner's contentions, however, the jury would be limited to the purely speculative inquiry, first, as to whether any patent would issue on the basis of the original application filed by Edward W. Isom, and if so, as to the scope that patent would have and as to the inventions that would be covered thereby, and second, as to the commercial value of the patent, the scope and the fact of the issuance of which would depend upon the result of the first speculative inquiry. Both those inquiries, of course, in accordance with the petitioner's conten-

tions, would be made entirely from the viewpoint of September 10, 1917, and all actual facts, and all actual knowledge derived from any matters and things of any later date than September 10, 1917, would be disregarded and would be kept from the consideration of the jury.

We submit that those contentions are not sound, but that on the contrary, all the applicable principles of law have the purpose and the effect of assisting the jury to learn and to consider all the facts, circumstances and conditions which are directly pertinent to the questions submitted for its consideration and verdict.

The fundamental questions which will be submitted to the jury for its decision at the trial of the pending action at law are, first, did the petitioner breach the contract of October 2, 1916, by failing and refusing to assign the Isom application or patent or the Isom invention to the respondent, and second, if the first question is answered in the affirmative, in what amount has the respondent been damaged by that breach of the contract by the petitioner?

The opinion of the Circuit Court of Appeals for the First Circuit reasonably holds that under the conditions existing in the pending action at law the rule of the market value is not applicable as the measure of the damages to which the respondent is entitled, stating:

> "An application for a patent, being a thing *sui generis*, has no 'market' value in the strict use of that term. *Standard Oil Co.* v. *So. Pacific Co.*, 268 U. S. 146; *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 610 (C. C. A. 6). Its money value may be estimated from the nature of the invention disclosed, its place in the art to which it relates, the step which the inventor took, and the change which it effected in the practice of the art. These facts, and other relevant circumstances, may be supplemented by

opinion evidence of value, as in the case of real estate. *Montana Ry. Co.* v. *Warren,* 137 U. S. 348.

We do not think that a court, valuing in judicial proceedings an invention described in an application for a patent, is obliged to shut its eyes to the result of the application, nor to the commercial utility of the invention as shown by the use of it in the art or industry to which it relates, but may take evidence on those points up to the time of trial. Williston on Contracts, page 2394.

Such evidence is not for the purpose of showing increase in value or new uses,—which as is well settled with regard to the valuation of land taken by eminent domain would not be admissible,—but to show the inherent character and place of the invention in question. It is analogous to evidence of successful commercial use of a patent on the question of invention, and of the actual results of a physical injury for which damages are sought. *Hetzel* v. *B. & O. R. R. Co.,* 169 U. S. 26; *Cincinnati S. L. Co.* v. *Western S. L. Co.* 152 U. S. 200. * * *" (62 F. (2d) 663, 665.) (R. 85.)

The Allowance of Adequate Compensation Is the Fundamental Principle of the Law of Damages.

The fundamental purpose of the principles of law as to the allowable damages in any case is to give adequate compensation to a plaintiff and not to protect a defendant in the enjoyment of what it wrongfully has acquired or has withheld. This fundamental principle is stated as follows in Williston on Contracts:

> "For the injury caused by the non-performance of most contracts the primary if not the only remedy of the injured party is an action for damages for the breach. In fixing the amount of these damages, the general purpose of the law is, and should be, to give compensation:—that is to put the plaintiff in as good a position as he would have been in had the defendant kept his contract. (p. 2392)
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> It is therefore, performance that the injured party

was then entitled to, and it is not the contract of which he has been wrongfully deprived by the breach, but the performance of the contract. The law in giving him a right of action for damages, therefore, should adjust the damages in such a way as to equal the value of the performance. (pp. 2393-2394.)

* * * * *

But even for such promised performance the measure of damages is not the value of a present obligation to render this performance in the future. If the case is not tried too soon to make it possible, evidence is admissible to show that in the future the damage if not speculative or remote actually turned out to be greater or less than the value which would have been placed at the time of the breach on the future undertakings in the contract. (p. 2394)"

In *United States* v. *Behan*, 110 U. S. 338, this Court stated:

"The *prima facie* measure of damages for the breach of a contract is the amount of the loss which the injured party has sustained thereby.

* * * * *

As before stated, the primary measure of damages is the amount of the party's loss; and this loss, as we have seen, may consist of two heads or classes of damage—actual outlay and anticipated profits." (p. 170)

The opinion in *Chicago, Milwaukee & St. Paul Railway Company* v. *McCall-Dinsmore Company*, 253 U. S. 97, contains the following statement to the same effect:

"The rule of the common law is not an arbitrary fiat, but an embodiment of the plain fact that the actual loss caused by breach of a contract is the loss of what the contractee would have had if the contract had been performed."

In *Federal Wall Paper Co.* v. *Kempner*, 244 Fed. 240, Judge Ray in the District Court for the Northern District of New York also stated the same general principles as follows:

"(4, 5), 'In the case of a breach of contract, the

> damages awarded should be such as will, as nearly as may be, place the injured party in the situation he would have occupied if the breach had not occurred.' *Wicker* v. *Hoppock*, 6 Wall. 94, 18 L. Ed. 752; 5 Encyclopedia of U. S. Reports, 169. 'The amount which would have been received, if the contract had been kept, is the measure of damages if the contract is broken.' *Pierce* v. *Tennessee, etc.*, 173 U. S. 1, 19 Sup. Ct. 335, 43 L. Ed. 591; *Benjamin* v. *Hillard*, 23 How. 149, 16 L. Ed. 518. Profits are recoverable if not speculative and remote."

In accordance with the fundamental principles stated in the decisions quoted above it is necessary to ascertain what must be the measure of the damages recoverable by the respondent in this case in order to put the respondent in as good a position as it would have been in had the petitioner fulfilled the obligations of its contract. It is obvious that what the petitioner wrongfully has retained and what the petitioner wrongfully has prevented the respondent from enjoying, are the rights and privileges incident to the ownership of the Isom invention and of Isom Patent No. 1,285,200. The extent of such rights and privileges has been defined by this Court in many cases, for example, in the following statement in *Bloomer* v. *McQuewan*, 14 How. 539, which was quoted in *Continental Paper Bag Co.* v. *Eastern Paper Bag Company*, 210 U. S. 405:

> "The franchise which the patent grants consists altogether in the right to exclude everyone from making, using or vending the thing patented without the permission of the patentee. This is all that he obtains by the patent."

The situation presented in the pending action at law therefore is this: that the petitioner wrongfully, by failing and refusing to assign the Isom application or patent or invention to the respondent, has prevented the respondent from having and from exercising the right

to exclude every one (including the petitioner) from making, using or vending the thing patented without the permission of the respondent, while on the contrary, the petitioner wrongfully and in violation of the right of exclusion which the plaintiff should have had, has widely and extensively made and used the thing patented without the permission of the respondent and without giving any compensation therefor to the respondent.

The General Rule That the Market Value or Price Governs the Determination of the Damages Recoverable for a Breach of a Contract Is Not Applicable to the Pending Action at Law in Aid of Which Discovery Is Sought.

It unquestionably is the general rule that in the ordinary case for the breach of a contract to assign or transfer property the best evidence as to the amount of the damages is the market value of the property which should have been delivered by the defendant, at the place where and at the time when delivery should have been made. However, that general rule as to the best evidence to establish the amount of the damages is not applicable to the pending action at law in aid of which discovery is sought hereby, because the subject matter of the contract in suit in that action makes the ascertainment of a market value absolutely impossible. A patent only can be issued for a new and useful invention. Every patent therefore differs from every other patent and every patent therefore has a purely individual utility and value. The general rule stated above as to the best evidence of the amount of damages is applicable only to the usual articles of commerce which are bought and sold repeatedly and for which there always is a fixed market value or price established in accordance with the economic law

of supply and demand. In the case of a patent, however, no such criterion of a market value or price can exist, and the general rule for proving the amount of the damages by reference to the standard of the market value or price cannot be applied.

The petitioner's brief (p. 11 *et seq.*) states and relies entirely on the proposition that the compensation recoverable by the plaintiff in the action at law must be measured by and limited to the market value of the Isom invention and application at the date when the alleged breach of contract occurred. The respondent contends that the petitioner's proposition is fundamentally unsound in that it confuses *actual value*, which undoubtedly is the measure of the damages which generally is applicable in an action for a breach of a contract, with market value or price which only is evidence of real value. Although evidence of a recognized and established market value or price, when available, is generally the best evidence of value, resort must be had to other evidence to prove value when evidence of an established market value or price is not available.

Most of the opinions which are referred to in the petitioner's brief relate to cases in which an established market value or price for some commodity, such as cotton, was available, and in which therefore resort to other means of proving value was not allowed. In many of the opinions cited in the petitioner's brief, however, the court did not use the term "market value" but the term "value" and distinguished between the evidence which may be admitted to establish the damages when market price or value is and when it is not available.

The distinction between market value or price as evidence of value, and value as the measure of damages, is clearly made in the leading textbooks on the subject of damages.

Sedgwick on Damages, Ninth Edition, Vol. I, p. 491, Section 243, states:

> "Wherever the measure of damages involves the question of value, however much the market may be resorted to to determine what the value is, this resort is had as furnishing usually the best *evidence* of value. What plaintiff is entitled to recover is the real value of the article of property, the time, the labor, or the services, as they would be if unaffected by the defendant's tort or if the defendant's contract had been performed. If these things are bought and sold in the market, the market price shows conclusively what it would cost the plaintiff to be put in as good a position as if the tort had not been committed or as if the contract had been performed. To take the most familiar of all illustrations, in the case of failure to deliver an ordinary article of commerce sold, the vendee can replace himself by buying the article in the market. Hence his measure of damages is invariably said to be the market value. But as the cases now to be examined will show, the rule, more exactly stated, would be that his measure of damages is the *value* of the article. When there is no market value, the value must be got at by the best proof to be had."

Sedgwick on Damages, Ninth Edition, Vol. I, p. 504, Section 250, states:

> "If an article has no market value, the *real value* of it must be determined in some other way *from such elements of value as are attainable*. 'If at any particular time there be no market demand for an article, it is not on that account of no value. What a thing will bring in the market at a given time is perhaps the measure of its value then, but not the only one.' 'The market price, in the ordinary sense, is generally, but not always, the test of value. For such a tort as a conversion of goods a plaintiff may be entitled to large damages, though unable to sell the goods at any price. *He may be greatly injured by the loss of goods which he cannot sell, but which would be productive of great benefit, and therefore would be of great value, without a sale.*'" (Italics ours.)

Hale on Damages, Second Edition, p. 273, states:

"A market value, as signifying a price established by sales in the ordinary course of business, is not necessary to a judicial valuation. Property is often subject to such valuation for which no proof of value in the market could be given, because it is not bought and sold in the ordinary course of trade, and is not known in the market. In such cases the real value is to be ascertained from such elements of value as are attainable. * * * So, where there is no market value, the value may be shown by the testimony of persons whose skill and experience enables them to testify to the value. The cost, *utility, and use of the property may be taken into consideration.* (Italics ours.)

* * * * *

The market price of an article is only a means of arriving at its real value. It is not itself the value of the article, but it is evidence of the value. The law adopts it as a natural inference of fact, but not as a conclusive legal presumption. Where an article is destroyed which can be readily replaced by purchase in the market, so as to put the owner in as good a position as he was before, the market price and real value will be the same. In such cases, the market value is said to be the measure of damages, but perhaps it would be more accurate to say that the value of the article was the measure." (Italics ours.)

Sedgwick on Damages, Ninth Edition, Vol. I, pp. 508-509, Section 252, states:

"The value of property is to be estimated with reference to the most remunerative use for which it is adapted. * * *

* * * Where land has a special adaptability to a particular purpose, since the fact of such adaptability enters into its value, it may be shown to establish the value."

Sedgwick on Damages, Ninth Edition, Vol. I, pp. 510-512, Section 253, states:

"The present value of property may be enhanced

> by the possibility of making a more remunerative use of the property than the present use. Such possible future use is to be considered. * * *"

The application for the Isom patent was pending secretly in the Patent Office from September 10, 1917, until November 19, 1918. Even after the Isom patent issued to the petitioner, no market value for the inventions and improvements protected by that patent ever was established so far as anything in the record in this case indicates. Evidence of market value or price as of any time, therefore is entirely nonexistent and resort cannot be had to such evidence to prove the real value of the inventions and improvements which should have accrued to the respondent in accordance with the provisions of the contract of October 2, 1916. Resort to evidence of other kinds therefore is necessary in order to prove that value.

In *United States* v. *Swift & Company*, 270 U. S. 124, this court held with reference to bacon of a peculiar kind and which had no market price, that there was no standard by which the usual rule of damages could be the measure of the plaintiff's loss through the failure of the Government to receive the bacon in accordance with its contract, and stated in the opinion by Mr. Chief Justice Taft:

> "The rule is that where there is no general market or the merchandise is of a peculiar character and not staple, it is necessary that some other criterion be taken than the difference between the agreed price and the general market value."

That the rule of damages based on the market value or price is general in its application, but that it is not to be applied when to do so would defeat the fundamental purpose of allowing adequate compensation for the

breach of a contract, is stated in Williston on Contracts as follows:

> "Since the only compensation a court of law can give is pecuniary, it is constantly necessary in applying the rule of compensation to determine the pecuniary value of performance which has been promised and frequently also of performance which has been given. An attempt to fix pecuniary value involves the use of standards, and different standards are conceivable. *There is a standard of market price if there is a market for the performance in question;* there is a standard of the cost of replacing; *there is the standard of the pecuniary value of the performance for use by a party to a contract.* Where there is a market price this will generally be the test though in special cases the defendant may be chargeable under another standard. (pp. 2398-2399.) (Italics ours.)
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> It will not infrequently happen that goods have no market value or none which can be determined with any exactness. Whenever goods are of a special kind or are of a peculiarly good or bad grade or quality, this is likely to occur. In such a case the court must determine the value of the goods as best it can by considering the expense to the buyer of securing similar goods, or goods which would equally well serve the purpose; or by the loss of profit suffered, or the added expense incurred. (p. 2460.)
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> The test of market value is, at most, but a means of getting at the buyer's loss, and under special circumstances it may cease to be exact or may become inapplicable." (p. 2461.)

The decision of the District Court herein that the rule of damages based on the market value should be applied in the pending action at law to which this suit in equity is ancillary, obviously would have had the effect of making the proof of actual damages so difficult, that, no matter how meritorious the respondent's case may be, it might have made it impossible for the jury to allow any-

thing more than nominal damages. However, as is stated hereinbefore, the fundamental purpose of the rules of law relative to damages is to allow adequate compensation to a plaintiff and not to protect a defendant in the enjoyment of that which it wrongfully has withheld, and therefore the respondent contends that some rule of damages or of evidence must be applied in this case so as to accomplish that fundamental purpose. In this connection the following general observations stated by the Circuit Court of Appeals for the Sixth Circuit in *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 610, are pertinent:

> "When we are asked to determine how much compensation an owner of any property should have because it has been wrongfully taken, our first thought is of the market value. The market value of the property or the impairment of that value is the ordinary, normal measure of damages.
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> Returning, now, to the observation of all other kinds of property and rights excepting patent rights, there remains a class of cases or a group of instances where no market value existed and where no loss or impairment of sales can be definitely proved. The law is not, in such case, impotent. *Plaintiff is not compelled to go away with nominal damages just because he cannot show that his property, or other like it, was commonly bought and sold on the market, or because he did not wish to sell, or because it was returning him no income. The real value—the actual value—of what has been taken is always the ultimate question.* Proof of market value is one way to show this actual loss; proof of lost sales is another way. But, if neither of these methods can be followed, the law permits other available, pertinent proofs. Those familiar with real estate estimate and testify to the real value or fair value of land which is without market value (*Chicago, etc., Ry.* v. *Ohio Co.* (C. C. A. 6) 214 Fed. 751, 131 C. C. A. 57); and these witnesses and *the jury may take into account all the special circumstances of the situation as bearing on the ulti-*

mate question. The same thing is true as to personal property of such character that it has no market value. Instances of the application of this rule as to both real and personal property are too familiar for citation. *In the same general class are all personal injury cases.* Pain and suffering, the loss of earning power, the loss of support, are all things which have no market value and all present situations where the damages cannot be ascertained or computed according to any arithmetical formula; *but the jury is put in possession of all the facts and circumstances,* it has the benefit of such testimony from experts as may show the rules and methods in force in the particular field, *and it estimates, as best it may, how much money will compensate plaintiff for the wrong done.*

Further pertinent familiar illustration is found in the settled rules concerning the estimation of values of property taken in the exercise of the right of eminent domain. It frequently happens that property is taken which is so situated and environed as not to possess any market value; and yet its value is universally solved by opinion evidence. Constitutional inhibitions against taking private property without compensation are no more restrictive upon the government or the agency exercising the power than are other organic provisions which are aimed against mere wrongdoers who appropriate rights of property like those involved under patent grants. *It is a travesty to allow property rights to be seized and enjoyed without remedy simply because of the supposed difficulty in establishing their value. There must be, in the nature of things, in all except the most extraordinary cases, if not in all, available testimony which can be employed with sufficient approximation to the true value—at least to justify its admission against any admitted or proved trespasser.* Denial of such a proposition must rest upon the idea that it is better for wrongs to go without redress than that they shall be redressed with imperfect accuracy." (Italics ours.)

The respondent consistently has contended that in accordance with the opinions quoted above, evidence other

than evidence of market value or price must be admissible at the trial of the pending action at law and must be relevant and material to the issue of the amount of the damages recoverable in that action, and that the amount of those damages should be measured either in accordance with the rule as to general damages for a violation of a patent right, (generally, but incorrectly, referred to as the reasonable royalty rule); or in accordance with the rule that the respondent is entitled to recover the gains which it was prevented from obtaining by reason of the petitioner's breach of the contract, or in accordance with the rule of the highest intermediate value of the property between the date delivery should have been made and the date of the trial.

The respondent furthermore has contended that in any event, because of the peculiar facts and of the peculiar situation in the action at law to which the suit for discovery is ancillary, the respondent should be permitted to introduce evidence at the trial of that action as to all facts, circumstances and conditions which may be informative and of assistance to the jury in determining a fair value for the Isom application or patent and for the inventions and improvements covered thereby, irrespective of what date may be fixed as the date of the breach of the contract, and irrespective of what rule as to the measure of the damages shall be held to be applicable. The petitioner's brief (p. 17) states that the opinion of the Court of Appeals does not indicate with any clarity what view was adopted by that court as to the measure of the damages recoverable in the action at law. The respondent contends that the opinion of the Court of Appeals held that the respondent is not limited to damages measured by the market value or price of the Isom application or patent or invention as of any particular time, and that the respondent is entitled to re-

cover general damages measured by the fair value of the inventions and improvements protected by the Isom patent. However, the order of the Court of Appeals reversing the order of the District Court which dismissed the petitioner's bill in equity for discovery, is correct, and it should be affirmed irrespective of what measure as to the recoverable damages shall be held to be applicable.

The Evidence of Which Discovery Is Sought Herein Will Be Relevant and Material to Establish the Amount of the Respondent's Damages in Accordance With the Rule of the Allowable General Damages for a Violation of a Patent Right.

The respondent primarily has suggested and has urged the applicability to the trial of the pending action at law, rather as a rule relative to the admissibility of evidence than as a measure, strictly speaking, of the damages recoverable, of what generally, but not very properly, is called the reasonable royalty rule, as the most reasonable rule in accordance with which the respondent may establish its actual damages by the best and most satisfactory evidence. The application of that rule thereby would fulfill for this case the fundamental purpose of the rules of law relative to damages. As stated by the Circuit Court of Appeals for the Sixth Circuit, however, what frequently is spoken of as a reasonable royalty is not in precise terminology a royalty at all, but that phrase merely is used as a convenient means of naming a particular kind of damages which also might well be called general damage, that is to say, damage not resting on any of the applicable exact methods of computation but upon facts and circumstances which permit the jury or the court to estimate in a general but in a sufficiently

accurate way the injury caused to a plaintiff. The circumstances under which the courts have had recourse to this general damage rule for the purpose of enabling a plaintiff to prove and to recover adequate compensation, appear to be very similar to the circumstances and conditions existing in the case here under consideration.

In *United States Frumentum Company* v. *Lauhoff*, 216 Fed. 610, the Circuit Court of Appeals for the Sixth Circuit stated in the opinion by Circuit Judge Denison:

> "It follows that, upon the basis of the master's findings, the District Court was right in directing nominal damages only; and it would ordinarily follow in this condition of the case that the judgment below would be affirmed. We are not satisfied to have this case take that course. There is a finding that the patent was valid; that the defendant Lauhoff, who had sold the patent, infringed it extensively and so endeavored to keep what he had sold; and that defendants' sales were so large that no one can doubt the actual existence of substantial damages. Under such circumstances, to have plaintiff recover nothing, because the difficulty of absolutely definite proof is insuperable, is a result so unfortunate that, if avoidable, it should not be permitted.
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> Infringement upon the patentee's rights is a tort; it is a taking of the patentee's property. The measure of damages for that wrong is sometimes clear and sometimes its borders are obscure. *We may with benefit compare the rules of damages as applied to property generally; for patents have no peculiarities making general rules of law wholly inapplicable.* * * * *Obviously, where the act done is the wrongful manufacture and sale of a patented article, the thing taken is the right to manufacture and sell. This is the right which would be given by a license from the patentee, and, since the recovery and collection of full damages (past and future) for a sale operates to give a license to the vendee* (*Stutz* v. *Armstrong* (C. C.) 25 Fed. 147, 148), *the value of that license is the thing to be determined. Ob-*

viously, too, the fixed, established license fee or royalty is the only evidence of the market value of the right to make and sell. If there is no such established royalty, the thing taken has no market value, and this criterion of damages must fail. From *Seymour* v. *McCormick*, 16 How. 480, at page 490, 14 L. Ed. 1024, it appears that *the use of a license fee as the measure of damages in a patent case is only adopting the ordinary rule of market value universally applied as to other property;* and, though this thought is not often repeated, it remains the logical basis for this first, 'primary' criterion of damages.

With reference to the owner's exclusive right under some patents, just as with reference to innumerable other items or whole classes of property, it often happens that there is no market value. In such case, the law always looks for some other appropriate measure. This is perhaps most commonly found, with reference to general property, in the owner's entire loss of a sale, or lessened profits on a sale he does make; and the profits which the owner would have made except for the unlawful interference are the familiar measure. This has come to be independently considered as a criterion of damages, sometimes an alternative for and sometimes displacing the 'primary' criterion. So, in patent cases, where a loss of sales or diminution of selling price or increase of selling expense by plaintiff can be fairly traced to defendant's infringement, so that the cause and effect relation is established, the profits which plaintiff has thus lost become an accepted measure of damages. Here, also, there is perfect accord between the rules as to property generally and the rules as to patent property. (Italics ours.)

* * * * *

We can see no reason why the owner of a patent may not be compensated upon the same principles, or why the perfect analogy between the rules of damages as to general property and as to patent property which apply with reference to market value and with reference to lost sales should be discarded when we come to what may, for convenience, be called general damages. *The jury, in a patent case,*

can be shown what plaintiff's patent property was, to what extent defendant has taken it, its usefulness and commercial value as shown by its advantages over other things and by the extent of its use and as shown by the profits and savings which could be made upon its sale or adoption. The jury can learn how much of a realizable profit should be credited to the manufacturing process and business risk and how much to the patent, also, what share of the profits or of the selling price it may be customary in that or similar business to allow for the use of such an invention. Experts may be amply qualified to give useful opinions as to the value of the property which is to be appraised. More or less of these things may appear in a given case, all having a bearing on the real value of that for which plaintiff is to be compensated, and the case presents no greater difficulty in computing and ascertaining damages than is met by a hundred juries every day. *This damage or compensation is not, in precise terminology, a royalty at all, but it is frequently spoken of as a 'reasonable royalty'; and this phrase is a convenient means of naming this particular kind of damage. It may also be well called 'general damage'; that is to say, damage not resting on any of the applicable, exact methods of computation but upon facts and circumstances which permit the jury or the court to estimate in a general, but in a sufficiently accurate, way the injury to plaintiff* caused by each infringing sale.

Save for the effect of the decided cases, we should have no hesitation in affirming the right of the patentee to recover such 'general damage' or 'reasonable royalty' in a case where the clearer criteria did not exist, where the utility and advantages of the invention were established and where there was substantial basis for estimating the value of these advantages. To send the successful plaintiff away after years of litigation and with only nominal damages is repellent to the sense of justice. Such a result has been many times condemned; it is characterized by Judge Severens as 'an untoward ending of a good cause' (*Brennan* v. *Dowagiac*, 162 Fed. 472, 473, 478, 89 C. C. A. 392, 398), and led him to say,

speaking of the patentee's difficulty in preserving his rights:

'But this only enhances the obligation of the courts to find a way, if it be possible, to redress the wrongs done by those who have been willing to gather the fruit into their own basket.' " (Italics ours.)

The court then proceeded to analyze and discuss the many earlier cases in which the same principle of general damages had been considered, primarily because of the impression which had been entertained by some courts that the decision of this court in *Coupe* v. *Royer*, 155 U. S. 565, had overruled the earlier decisions which had sustained the right of a plaintiff to recover in a suitable case in accordance with the general damage rule. After this consideration, however, the court held that the Frumentum Company was entitled to a reversal for the purpose of having a master or a jury determine as a question of fact the amount of the general damages to which it was entitled on account of the infringement of its patent, and stated the conclusion:

"* * * it may be that the rule which we are here stating will afford the means by which the courts can, in most instances, feel reasonably satisfied that substantial justice is done and also that the result is reached with due regard to all applicable general rules of law."

In *Suffolk Mfg. Co.* v. *Hayden*, 3 Wall. 315, this court stated:

"As to the question of damages: it appeared that no sales had been made of the patent right by the plaintiff, or licenses for the use of it, so as to establish a patent or license fee as a criterion by which to ascertain the measure of damages; and the court below permitted evidence after objection, as to the uses and advantages of this improvement over the previous method of cleaning cotton; and an expert testified that 'the results were: a more thorough cleaning of the cotton: the saving of all the good fibers; less damage of the staple, the freeing of the

room from dust and machinery from dust, dirt and sand, the keeping of the machinery in better order at less cost, and dispensing with one grinder of the cards in consequence of the diminution of the dirt and sand; expelling the fine dust and dirt not before got out; less breakage of the yarns,' etc.

There was, also, evidence of the amount of cotton that had been cleaned at the defendant's mills by the plaintiff's improvement, within the period for which the damages were claimed.

"This question of damages, under the rule given in the statute, is always attended with difficulty and embarrassment both to the court and jury. There being no established patent or license fee in the case, in order to get at a fair measure of damages, or even an approximation to it, general evidence must necessarily be resorted to. *And what evidence could be more appropriate and pertinent than that of the utility and advantage of the invention over the old modes or devices that had been used for working out similar results? With a knowledge of these benefits to the persons who have used the invention, and the extent of the use by the infringer, a jury will be in possession of material and controlling facts that may enable them, in the exercise of a sound judgment, to ascertain the damages, or, in other words, the loss to the patentee or owner, by the piracy, instead of the purchase of the use of the invention.*" (Italics ours.)

In *Dowagiac Manufacturing Company* v. *Minnesota Moline Plow Company*, 235 U. S. 641, this court stated in the opinion by Mr. Justice Van Devanter:

"As the exclusive right conferred by the patent was property, and the infringement was a tortious taking of a part of that property, *the normal measure of damages was the value of what was taken.* So, had the plaintiff pursued a course of granting licenses to others to deal in articles embodying the invention, the established royalty could have been proved as indicative of the value of what was taken, and therefore as affording a basis for measuring the damages. *Philp* v. *Nock*, 17 Wall. 460, 462, 21 L. Ed. 679; *Birdsall* v. *Coolidge*, 93 U. S. 64, 70, 23 L. Ed.

802, 805; *Clark* v. *Wooster*, 119 U. S. 322, 326, 30 L. Ed. 392, 393, 7 Sup. Ct. Rep. 217; *Tilghman* v. *Proctor*, 125 U. S. 136, 143, 31 L. Ed. 664, 666, 8 Sup. Ct. Rep. 894. But, as the patent had been kept a close monopoly, there was no established royalty. In that situation *it was permissible to show the value by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, and the extent of the use involved.* Not improbably such proof was more difficult to produce, but it was quite as admissible as that of an established royalty. In *Suffolk Mfg. Co.* v. *Hayden*, 3 Wall. 315, 320, 18 L. Ed. 76, 78, where a like situation was presented, this court said that 'in order to get at a fair measure of damages, or even an approximation of it, general evidence must necessarily be resorted to.' See also *Washington, A. & G. Steam Packet Co.* v. *Sickles*, 19 Wall. 611, 617, 22 L. Ed. 203, 204; *Root* v. *Lake Shore & M. S. R. Co.* 105 U. S. 189, 198, 26 L. Ed. 975, 978. And in many cases in the other Federal courts the damages have been assessed upon proof of a reasonable royalty. The practice is illustrated by the following extract from the opinion in *Hunt Bros. Fruit-Packing Co.* v. *Cassiday*, 12 C. C. A. 316, 318, 29 U. S. App. 116, 64 Fed. 585, 587: 'The plaintiff was clearly entitled to damages for the infringement. If there had been an established royalty, the jury could have taken that sum as the measure of damages. In the absence of such royalty, and in the absence of proof of lost sales or injury by competition, the only measure of damages was such sum as, under all the circumstances, would have been a reasonable royalty for the defendant to have paid. This amount it was the province of the jury to determine. In so doing, they did not make a contract for the parties, but found a measure of damages.' True, some courts have regarded *Coupe* v. *Royer*, 155 U. S. 565, 39 L. Ed. 263, 15 Sup. Ct. Rep. 199, as impliedly holding that this practice was not permissible, but the decision does not admit of such an interpretation. In that case—an action at law—there was no proof of what would have been a reasonable royalty, but only of what the defendant had made or might have made out of the infringe-

ment; and all that the court held was (a) that the damages were not to be measured by what the defendant had gained or might have gained, but by what the plaintiff had lost, and (b) that, as the evidence disclosed 'no license fee, no impairment of the plaintiff's market, in short, no damages of any kind,' the verdict could not exceed a nominal sum. In *Cassidy* v. *Hunt*, 75 Fed. 1012, where the scope of that decision was carefully considered by one of the circuit judges for the ninth circuit, the conclusion was reached that it did not militate against an assessment of damages upon the basis of what would have been a reasonable royalty; and a like view was expressed and applied by the circuit court of appeals for the third circuit in *McCune* v. *Baltimore & O. R. Co.* 83 C. C. A. 175, 154 Fed. 63, and *Bemis Car Box Co.* v. *J. G. Brill Co.* 119 C. C. A. 229, 200 Fed. 749, 762, and by the circuit court of appeals for the sixth circuit in *United States Frumentum Co.* v. *Lauhoff*, 216 Fed. 611. But, although the plaintiff was entitled to prove what would have been a reasonable royalty, and thereby show a proper basis for an assessment of damages, no proof upon that subject was presented." (Italics ours.)

In *American Telephone and Telegraph Company* v. *Radio Audion Company*, 5 F. (2d) 535 (District of Delaware, 1925), District Judge Morris stated:

"* * * The more troublesome problem has been to find a standard by which the amount of plaintiff's damages, when shown to be substantial, could be estimated and measured with reasonable certainty and in a sufficiently accurate way when there is no evidence of an established royalty, lost sales, or lessened profits. But that problem, as I understand the cases, has now been solved. The standard determined upon and fixed is that of general damage or reasonable royalty. *Dowagiac Mfg. Co.* v. *Minnesota Plow Co.* 235 U. S. 641, 648; *United States Frumentum Co.* v. *Lauhoff*, 216 F. 610, 132 C. C. A. 614; *Bemis Car Box Co.* v. *J. G. Brill Co.* 200 F. 749, 119 C. C. A. 229; *McCune* v. *Baltimore & O. R. Co.* 154 F. 63, 83 C. C. A. 175. The rule has been stated thus: 'Where damages cannot be assessed on the basis

> of a royalty nor on that of lost sales nor on that of reduced profits, the proper method of assessing them is to ascertain what would have been a reasonable royalty for the infringer to have paid.'" Walker on Patents (3d Ed.) § 563.
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> * * * * *

The petitioner has claimed that evidence similar to that held to be admissible in the above cases in accordance with the reasonable royalty rule (to use the customary term rather than the more strictly accurate term of "general damage rule"), is not admissible as relevant and material evidence on the issue of the amount of the damages recoverable in the pending action at law for the reasons:

First. That the so-called reasonable royalty rule only has been applied by the courts in actions for damages for the infringement of patents, which actions of course sound in tort, and that therefore that rule is not applicable to an action, such as that here under consideration, for damages for the breach of a contract, and

Second. That any damages allowed in this case in accordance with the so-called reasonable royalty rule, would be entirely speculative, uncertain and indefinite, because there is no way of establishing that the petitioner would have taken a license from the respondent under the Isom patent, if the petitioner had assigned that patent to the plaintiff in accordance with the provisions of the contract of October 2, 1916.

The respondent submits that there is no merit whatsoever to the petitioner's contention that the general damages rule cannot be applied in this case merely because this is an action for a breach of contract and because the rule heretofore has been applied only in actions sounding in tort.

17 C. J. 717, Sec. 53 (b) Effect of Nature of Form of Action, states:

> "The underlying principles governing an award of damages are the same whether the action is in contract or in tort and do not depend upon its form."

The same principle has been established by this court in *Hetzel* v. *Baltimore & Ohio Railroad Company*, 169 U. S. 26. With reference to the question of the damages recoverable this court stated in that case:

> "Of course, in such inquiries, absolute certainty as to the damages sustained is in many cases impossible. All that the law requires is that such damages be allowed as, in the judgment of fair men, directly and naturally resulted from the injury for which suit is brought. This is the rule which obtains in civil actions for damages. They have their foundation in the idea of just compensation for wrongs done. In *United States Trust Company* v. *O'Brien*, 143 N. Y. 284, 287-289—which was an action for damages for the breach of certain covenants contained in a lease—Mr. Justice Peckham, speaking for the court of appeals of New York, when a member of that court, said: 'It is clear, and so it has been held in many cases, that *the rule of damages should not depend upon the form of the action. In all civil actions the law gives or endeavors to give a just indemnity for the wrong which has been done the plaintiff, and whether the act was of the kind designated as a tort or one consisting of a breach of a contract is on the question of damages an irrelevant inquiry.* As was said by Rapallo, J., in *Baker* v. *Drake*, 53 N. Y. 211, 220 (13 Am. Rep. 507), the inquiry is What is an adequate indemnity to the party injured, and the answer cannot be affected by the form of the action in which he seeks his remedy.'' (p. 37.) (Italics ours.)

In *Cincinnati Siemens-Lungren Company* v. *Western Siemens-Lungren Company*, 152 U. S. 200, in referring to the rule relative to damages which had been es-

tablished in *Seymour* v. *McCormick*, 57 U. S. 16, this court stated:

> "*It is true that that was an action for an infringement, and this for a breach of a contract, but still the rule of damages is the same.* Actual damages is what the law gave in case of an infringement (*Birdsall* v. *Coolidge*, 93 U. S. 64 (23:802) actual damages is all the law gives in case of a breach of contract." (p. 205.) (Italics ours.)

The brief for petitioner does not discuss the propositions on which the respondent has relied and on which it now relies and in accordance with which the respondent contends that all the evidence sought by the bill of discovery herein is admissible as being relevant and material to the issue of the amount of the damages suffered by the respondent on account of the petitioner's breach of the contract of October 2, 1916.

The memoranda which were filed in the District Court in support of the petitioner's motion as the defendant in that court to dismiss the bill in equity for discovery herein, and the petitioner's brief as the appellee in the Circuit Court of Appeals, commented on the cases which we have cited and quoted in support of the Bill of Discovery, and in which the courts discussed the general damages rule and applied that rule for the purpose of allowing the recovery of substantial compensatory damages, and contended that that general damages rule, (which frequently is referred to as the reasonable royalty rule but which more accurately stated is only a rule which permits the introduction of evidence on the basis of which a jury or a court may award general damages) is applicable only to patent infringement cases and that it is not applicable to a breach of contract case. This contention appears to be predicated on the fact that the majority of the cases to which we have referred above are suits in equity for the infringement of patents, and

on the fact that patent infringement is a continuing tort and that the term "royalty" implies that a certain amount is to be applied to each infringing act as a basis for computing a total sum to be paid as royalty.

It certainly can make no difference whether the principle of law which is here under consideration has been stated by the courts in opinions in suits in equity rather than in opinions in actions at law. The ascertainment and the assessment of damages involve exclusively principles of law as distignuished from principles of equity, but in the instances in which damages are awarded in proceedings in equity, the legal principles relative to damages are applied by the courts of equity. This is illustrated by the fact that *Suffolk* v. *Hayden*, 3 Wall. 315, the leading case on the general damages or the so-called reasonable royalty rule, was an action at law, and that the decison in that case was quoted and was followed by the court in the opinion in each of the other cases cited and quoted heretofore in this section, all of which other cases were suits in equity.

Nor is there any reason why the fact that infringement is a continuing tort, should make the general damages rule inapplicable to every other kind of case, and especially to an action for damages for the breach of a contract relative to a patent right. Of course, some difference in the application of the rule is necessary, because only one recovery can be had for one breach of a contract. In the present case the fair value of the rights of which the respondent has been deprived by the petitioner's breach of the contract of October 2, 1916, and reasonable compensation for the loss inflicted on the respondent by that breach of the contract, could be measured by the amount of a reasonable paid-up royalty for the use by the petitioner of the inventions of the Isom

patent. Evidence as to the actual commercial use of those inventions by the petitioner, and of the extent of that commercial use, certainly will be relevant and material for the consideration of the jury in determining the amount of such damages.

In *Suffolk* v. *Hayden*, this court approved an instruction which had been given to the jury by the trial court, stating:

> "The court below, in its charge to the jury, stated the rule as prescribed by the statute, which is the actual damages that the plaintiff has sustained from the infringement, and among other things observed: 'Then you will look at the value of the thing used, and ascertain that value by all the evidence as to its character, operation and effect. You will take into view the value of that which the defendants have used, belonging to the plaintiff, to aid you in forming the judgment of the actual damage the plaintiff has sustained.'" (70 U. S. 315, 319.)

Exception was taken by the defendant to the above instruction on the ground that it gave a latitude to the jury in the estimate of damages beyond that of the use or value of the improvements embraced in the patent in question. With reference to one basis for that contention this court stated:

> "* * * It is also urged that the value of the improvement was not a proper subject for the consideration of the jury in estimating the damages. This may be admitted. But looking at the term 'value' in the connection in which it was used, it is quite clear that it had reference only to the utility and advantages or value of the use of the improvement over the old mode of cleaning cotton; not the value of the patent itself." (p. 19.)

The instruction quoted above properly could be given to the jury at the trial of the pending action at law in aid of which the Bill of Discovery herein was brought, without changing one word, although, of course, the term

"value" would be used at the trial of the pending action at law in a different connection and would refer to the value of the Isom patent itself and to the value of the improvements covered by that patent, and would not refer only to the value of the use of the inventions of that patent by the Sinclair Company during a specified period of time. Evidence of the same character as that which was admitted in *Suffolk* v. *Hayden* to prove the amount of the damages to which the plaintiff was entitled for the infringement under consideration in that case in accordance with the general damages rule, also would have furnished a sufficient, even if not an equally exact basis, for the jury to have determined the value of the patent in suit in that action, if an issue as to that value had been involved. Similar evidence should be admitted at the trial of the pending action at law to which this proceeding in equity is ancillary, either as a basis for fixing a value for the Isom patent or as a basis for allowing the plaintiff to recover general damages in accordance with the cases to which we have referred.

It therefore is apparent that the defendant's contention does not submit any sound reason why the general damages rule cannot be applied in the pending action at law to which this suit in equity is ancillary, if the peculiar circumstances and conditions in the case make it necessary, as they clearly do, to apply that rule in order to allow the respondent to establish and to recover the actual damages caused by the petitioner's breach of the contract in suit in that action at law.

Neither does there appear to be any merit in the petitioner's theory that to make the general damages rule applicable in this case, it would be necessary for the respondent to establish by competent evidence that the petitioner would have taken a license under the Isom

patent, and would have paid the respondent a royalty therefore, if the petitioner had complied with the contract of October 2, 1916, and had assigned that patent to the plaintiff. There is no necessity to speculate as to what would have been the situation if the petitioner had complied with the contract and had assigned the patent, but on the contrary the respondent should be compensated for the actual damages caused by the petitioner's breach of the contract, and in determining the amount of the compensation to which the respondent is entitled, due consideration must be given to all the facts and circumstances in the case as they actually exist and have existed and for the existence of which the petitioner itself is and has been solely responsible.

There is no more reason why it should be necessary in this case to prove that the petitioner would have taken a license from the respondent under the Isom patent if the petitioner had recognized its liability under the contract in suit and had assigned that patent to the respondent, than there was in any one of the many cases in which the general damages rule was applied, to require the plaintiff to prove that the defendant therein would have taken a license if it had realized that it was in fact infringing the patent of the plaintiff therein. No one of the opinions cited above even suggests that there is any such requirement.

The petitioner's contention appeared to have been based on the theory that an application of the general damages rule in any case has the effect of creating a contract between the parties by act of the court. That, however, is not the result. In *Hunt Brothers Food Packing Company* v. *Cassiday*, 54 Fed. 585, the Circuit Court of Appeals for the Ninth Circuit stated:

> "The plaintiff was clearly entitled to damages for the infringement. If there had been an established

> royalty, the jury could have taken that sum as the measure of damages. In the absence of such royalty, and in the absence of proof of lost sales or injury by competition, the only measure of damages was such sum as, under all the circumstances, would have been a reasonable royalty for the defendant to have paid. This amount it was the province of the jury to determine. In so doing, they did not make a contract for the parties, but found a measure of damages. *McKeever* v. *U. S.* 14 Ct. Cl. 414; *Ross* v. *Railway Co.* 45 Fed. 424; *Royer* v. *Coupe* 29 Fed. 371; *Cary* v. *Manufacturing Co.* 37 Fed. 654."

The above statement in *Hunt Brothers* v. *Cassiday* was quoted and approved by this court in the Dowagiac case and by the Circuit Court of Appeals for the Sixth Circuit in the Frumentum case (216 Fed. 610, 621).

We submit that all the special considerations and circumstances which have caused the courts in the many cases to which we have referred hereinbefore, to apply the general damages rule for the purpose of allowing the plaintiff in each case to recover adequate and substantial damages for a wrongful violation of the right of exclusion conferred by a patent, are present in the action at law to which this suit in equity is ancillary. The only difference between the situation in the cases which we have cited, the infringement cases, and the situation in the pending action at law to which the suit here under consideration is ancillary, is that the petitioner herein has violated the respondent's rights in two respects,—

First. By failing and refusing to assign the Isom patent to the respondent in accordance with the provisions of the contract of October 2, 1916, a situation which of course has not existed in any of the infringement cases, and

Second. In wrongfully violating the right which the

respondent should have had to exclude everyone, including the petitioner, from making, using or vending the inventions of the Isom patent without the permission of the respondent, a situation which of course is exactly analogous to that in each of the infringement cases.

The fact that the petitioner has been guilty of the first wrong and that thereby the petitioner has made it impossible for the respondent to proceed directly against the petitioner to recover damages for the infringement of the Isom patent, cannot constitute any reason which the law will uphold, why the petitioner should not answer to the respondent for its second wrong, or why the same evidence of damages which would have been admissible if the first wrong had not been committed, should not be admissible in this case to allow the respondent to recover adequate compensation for the damage and loss suffered on account of the petitioner's breach of the contract of October 2, 1916.

The Respondent Is Entitled to Recover the Gains Which It Was Prevented From Obtaining by the Petitioner's Refusal to Assign the Isom Patent and Invention as the Measure of the Damages Recoverable in the Pending Action at Law in Aid of Which Discovery Is Sought.

The respondent contends that it is entitled to recover substantial damages not only in accordance with the general damages rule, as that rule has been stated and applied in the cases discussed in the preceding section of this brief, but also in accordance with the well established principle that under certain circumstances, lost profits may be recovered as an element of damage.

However, although lost profits is the term generally used, gains prevented is a better and more accurate designation for this element of damage. This court so held in *Eckington & Soldiers Home Railway Company* v. *McDevitt*, 191 U. S. 103, an action for a breach of contract, when it stated:

> "In a case like this, gain prevented is a more accurate term than loss of profits. And it is said in Sedgwick on Damages, 8th ed., vol. 1, p. 250, § 173: 'Where an injured party claims compensation for gain prevented, the amount of loss is always to some extent conjectural; for there is no way of proving that what might have been, would have been.'"

The circumstances and conditions under which gains prevented are recoverable as damages are stated as follows in Williston on Contracts:

> "Though any breach of contract entitled the injured party at least to nominal damages, he cannot recover more without establishing a basis for an inference of fact that he has been actually damaged. A mere possibility that the plaintiff might have made a profit if the defendant had kept his contract will not justify damages based on the assumption that the profit would have been made. But though substantial damage must be shown in order to justify recovery of more than a nominal sum, the exact amount need not be. Where it is clear that substantial damage has been suffered the impossibility of proving its precise limits is no reason for denying substantial damages altogether. Under this principle, profits that the plaintiff would have made if the contract had been carried out may be recovered if their loss was a proximate and natural consequence of the breach, and any reasonable method of estimation is possible, even though the exact amount of profit to have been anticipated is necessarily uncertain. (pp. 2400-2401.)
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> An attempt is sometimes made to distinguish between certainty that some damage has been caused, and certainty as to the amount of damage; but no

broad statement can be made that where it is uncertain that any damage has been caused by the breach no recovery is allowable. In almost every case where prospective profits are allowed it will be true that the profit was a chance—dependent upon the ability to make a large number of contracts with other persons on advantageous terms. All reasonable expectations might have been disappointed by the happening of divers contingencies. But if the plaintiff has given valuable consideration for the promise of a performance which would have given him a chance to make a profit, the defendant should not be allowed to deprive him of that performance without compensation unless the difficulty of determining its value is extreme. In a recent English case the plaintiff by contract was entitled to become one of fifty persons, twelve of whom were to be selected by judges for the bestowal of prizes. The plaintiff was not notified of the time when the decision and award was to be made and therefore failed to present herself, and twelve other persons were awarded the prizes. A recovery of substantial damages was upheld. It was recognized that the plaintiff would have had, if the defendant had not committed a breach, about one chance in four of securing a prize. The court declined to take a distinction between a chance and a probability so far as the right to recovery was concerned. As was said in a Minnesota decision: 'It is no exoneration to defendant that his misconduct, which has made inquiry as to the quantum of harm necessary, renders that inquiry difficult. The best the law can do is to award approximate compensation. Its failure to do even and exact justice in such cases is not more conspicuous than in many others. No other remedy is available. To allow only for loss of time and expenses would put a premium upon breaking contracts and deny substantial justice.'

Though the fact that the plaintiff's damage is uncertain in amount or even that it is uncertain that substantial damage has been caused should not deprive the plaintiff of a right to compensation for the loss of the defendant's performance which would have given the plaintiff a chance to make profit or

avoid damage, such uncertainty is a good reason for applying some other test, if another test is possible, for estimating his damage than by letting a jury guess at the value of the plaintiff's chance or probability by seeking to estimate his probable profits and losses. For this reason where the performance of which the plaintiff has been deprived has a market value, courts will be more reluctant to allow the test of prospective profits than in a case where if prospective profits are not allowed the plaintiff will be denied relief altogether. Thus where the defendant has wrongfully broken a contract to furnish power to run a mill, some courts restrict the damages to a difference between the rental value of the mill if the contract had been kept and its rental value in view of breach. Other courts allow loss of profits to be estimated by the jury. But courts which would deny the plaintiff in such a case the right to recover anticipated profits would doubtless allow proof of such profits in a case where no other method of estimating the plaintiff's damage was possible and where, therefore, a rejection of the test of anticipated profits would result in denying the plaintiff all substantial relief. Where a breach of contract involves deprivation of a chance which has value in a business sense, a just reluctance will be felt by most courts to deny altogether the recovery of substantial damages." (pp. 2403-2404.)

In *Cincinnati Siemens-Lungren Gas Co.* v. *Western Siemens-Lungren*, 152 U. S. 200, this court, after holding that the rule of damages is the same in an action for a breach of a contract as in an action for an infringement, and after referring to an infringement case, stated:

"Indeed, the real difference between that case and this is not so great as would be suggested by a description of the respective causes of action. For here, under the contract made by the plaintiff's assignor with the Cincinnati parties, the defendant became vested with a monopoly of sales within the prescribed territory of like nature to the monopoly given by the government for the whole territory of the United States whenever it issues a patent; and

the act of the plaintiff in making a sale within that territory was an infringement similar to that of a sale of a patented article made within the limits of the United States in defiance of the rights of the patentee. Nevertheless it must be conceded that in the case at bar there is technically a claim for a breach of a contract, and it is undeniable that in some cases the profits that would have been made are proper elements of damage in such an action. This matter has been recently considered by this court in *Howard* v. *Stillwell & B. Mfg. Co.*, 139 U. S. 199 (35:147), from the careful opinion of Mr. Justice Lamar in which case we quote as follows:

'The grounds upon which the general rule of excluding profits, in estimating damages, rests are (1) that in the greater number of cases such expected profits are too dependent upon numerous uncertain and changing contingencies to constitute a definite and trustworthy measure of actual damages; (2) because such loss of profits is ordinarily remote and not, as a matter of course, the direct and immediate result of the non-fulfillment of the contract; (3) and because most frequently the engagement to pay such loss of profits, in case of default in the performance, is not a part of the contract itself, nor can it be implied from its nature and terms. 1 Sedgw. Damages (7th ed.) 108; *The Lively*, 1 Gall. 315, 325 per Mr. Justice Story; *The Anna Maria*, 15 U. S. 2 Wheat, 327 (4:252); *The Amiable Nancy*, 16 U. S. 3 Wheat, 546 (4:456); *La Amistad de Rues*, 18 U. S. 5 Wheat, 385 (5:115); *Smith* v. *Condry*, 42 U. S. 1 How. 28 (11:35); *Parish* v. *United States*, 100 U. S. 500, 507 (25:763, 766); *Bulkley* v. *United States*, 86 U. S. 19 Wall. 37 (22:62). But it is equally well settled that the profits which would have been realized had the contract been performed, and which have been prevented by its breach, are included in the damages to be recovered in every case where such profits are not open to the objection of uncertainty or of remoteness, or where from the express or implied term of the contract itself, or the special circumstances under which it was made, it may be reasonably presumed that they were within the intent and mutual understanding of both parties at the time it

was entered into. *United States* v. *Behan*, 110 U. S., 338, 345, 346, 347 (28:168, 170, 171); *Western Union Telegraph Co.* v. *Hall*, 124 U. S. 444, 454, 456 (31:479, 483); *Philadelphia, W. & B. R. Co.* v. *Howard*, 54 U. S. 13 How. 307 (14:157).' "

The same principle was stated again by this court in *Anvil Mining Co.* v. *Humble*, 153 U. S. 540, a case for the breach of a contract in which a recovery for lost profits as damages was sustained, when it stated (p. 817):

> "A third proposition of defendant is that 'under the facts in this case the damages claimed for loss of profits were too uncertain, contingent, and conjectural to found a verdict upon.' Profits which are a mere matter of speculation cannot be made the basis of recovery in suits for breach of contract, while profits which are reasonably certain may be."

The principles which allow the recovery of substantial damages for loss of profits were applied recently by the Circuit Court of Appeals for the First Circuit in *Gasoline Products Co.* v. *Champlin Refining Co.* 39 F. (2d) 521. The questions arose in connection with a counterclaim by the defendant on account of a breach by the plaintiff on a contract to erect a treating tower to purify cracked gasoline. The court stated:

> "(2) It is plain, from the whole course of the dealings between the parties, that the plaintiff's undertaking was to furnish means for the defendant to make an increased part of its crude oil marketable in order that it might thereby derive profits. The defendant's claim for damages falls, therefore, within those cases which hold that, if profits were in the contemplation of the parties, and there is shown some rational basis for determining such profits, they may be recovered as damages. *Central Coal & Coke Co.* v. *Hartman* (C. C. A.) 111 F. 96; *Bishop-Babcock-Becker Co.* v. *Estes Drug Co.* 63 Okl. 117, 163 P. 276; *Stearnes Co.* v. *Robins*, 114 Okl. 156, 245 P. 63; *Gagnon* v. *Sperry & Hutchinson Co.* 206 Mass. 547, 92 N. E 761; *Armstrong* v. *Bangor Mill Sup-*

ply Corp. 127 Me. 194, 142 A. 734; Id., 128 Me. 75, 145 A. 741; *Waukeag Ferry Assoc.* v. *Arey*, 128 Me. 108, 146 A. 10; *Eastman Kodak Co.* v. *Southern Photo Materials Co.* 273 U. S. 359, 47 S. Ct. 400, 71 L. Ed. 684. (pp. 522-523.)

* * * * *

We observe, generally, that the amount of defendant's damage was peculiarly a question of fact for the jury, to be determined on very conflicting evidence. It is not surprising that the jury found no persuasive case made out for damages approximating the defendant's claim of over $300,000. On the other hand, it is equally clear that the defendant did, on the weight of evidence, make out a claim for a substantial sum of lost profits as damages. (p. 523.)

* * * * *

This ruling was made at least twice. Near the close of the long charge the court read to the jury the defendant's seventh request, as follows:

> 'If you find for the defendant, in accordance with the instructions previously given you, I instruct you that defendant is entitled to recover all the damages which are the natural and probable consequence of plaintiff's breach of contract, and all damages which the parties should reasonably anticipate would result from a breach of contract by the plaintiff, and in this respect I instruct you that the defendant would be entitled to recover all the profits which it lost by reason of plaintiff's breach of contract, if you find that profits were in the contemplation of the parties when the contract was entered into and that the profits claimed are not remote nor speculative but are capable of reliable measurement, that is, can be ascertained by you with a reasonable degree of certainty.'

He then added:

> 'That is in substance what I have already told you, and, further, I will instruct you that they must be in no degree conjectural. That word was omitted from the instruction.'" (p. 523.)

* * * * *

"The jury were thus, after they had indicated their general conclusion in favor of the defendant, emphatically told that any degree of uncertainty would cut off the defendant's claims for damages. Under such circumstances, we cannot say the jury were not misled. Only reasonable certainty is requisite. 1 Sedgwick, Damages (9th Ed.) § 176. The seventh request was a correct statement of the law. In *Eastman Kodak Co.* v. *Southern Photo Co., ubi supra,* the Supreme Court approved this instruction:

> 'Damages are not rendered uncertain because they cannot be calculated with absolute exactnes. It is sufficient if a reasonable basis of computation is afforded, although the result be only approximate.'

Compare *Malone* v. *Hastings* (C. C. A.) 193 F. 1; *Central Coal & Coke Co.* v. *Hartman, ubi supra.* The verdict of only $40,980.59 cannot, on the evidence, be reconciled with any very substantial allowance of profits." (p. 524.)

A petition for a writ of certiorari was granted in the above case but limited to the question whether the Circuit Court of Appeals erred in limiting the new trial to the question of damages. (282 U. S. 824.)

We submit that in accordance with the principles stated and applied in the above cases, the respondent is entitled to compensation for the gains which it has been prevented from making because of the petitioner's failure and refusal to assign the Isom patent and invention to the respondent in accordance with the provisions of the contract of October 2, 1916. One part of the gains which the respondent thereby has been prevented from making clearly consists of the royalties which the plaintiff should have obtained from the Sinclair Company for its use of the inventions of the Isom patent in its commercial cracking of petroleum oils to produce gasoline. As there is no established royalty from which the exact amount of those prevented gains can be determined, the

amount of the damages which should be awarded to the respondent in the action at law on account of those prevented gains, clearly is commensurate with the sum which would have constituted a reasonable royalty for the petitioner to have paid for a right to the wide and extensive use of the inventions of the Isom patent required by the petitioner's commercial operations.

The circumstances surrounding the execution of the contract of October 2, 1916, establish clearly that compensation for gains prevented is allowable as an element of damage in the pending action at law for the breach of that contract. When that contract was made the parties thereto were negotiating with reference to a sale or license of the inventions made by Mr. Jenkins in the oil cracking art, (R. 14) and the contract was executed to protect the plaintiff against the very thing that has taken place, namely, the acts of the defendant in obtaining the fullest possible disclosure of everything pertaining to Mr. Jenkins' ideas, including an inspection of the secret patent applications, and in then secretly proceeding to develop those ideas and to secure a patent on an improved apparatus and process, without giving any compensation whatsoever to the plaintiff. Certainly it must have been within the contemplation of the parties that the proper measure of the damages for such a breach of the contract in suit, would consist of a reasonable royalty payable by the petitioner to the respondent for the use of any improvement, whether of a mechanical nature or in the process, which might be developed by the petitioner's experts and engineers, and on which a patent might be secured which should not be assigned to the respondent. Certainly any damages measured and determined in that manner will not be remote or speculative, but on the contrary, will be the natural and probable consequence of the petitioner's breach of the con-

tract and will be capable of reliable measurement, so that all the conditions imposed by the courts for the allowance of such damages in any case are fulfilled in every respect in this case.

The Respondent Should Be Permitted to Introduce Evidence at the Trial of the Pending Action at Law as to All Facts, Circumstances and Conditions Which May Be Informative and of Assistance to the Jury in Determining a Fair Value for the Isom Application or Patent and for the Isom Inventions and Improvements.

Even if the damages recoverable by the respondent in the pending action at law to which this proceeding in equity is ancillary must be measured by the value of the Isom patent and invention as of the date of the petitioner's breach of the contract of October 2, 1916, or as of some date within a reasonable time thereafter, every kind of evidence should be admitted which may assist the jury in ascertaining and fixing a fair and adequate value of the patent and invention as of that date. As we have stated hereinbefore, a patent is not an article of commerce which is bought and sold repeatedly and for which a market value as of any date is established in accordance with the economic law of supply and demand. However, the failure of that standard of value does not prevent a plaintiff from establishing a value for a patent or for any other property by introducing whatever secondary and circumstantial evidence may be available.

Crichfield v. *Julia*, 147 Fed. 65, is a case which is very much in point on the question here under consideration, because of the latitude allowed to the plaintiff in that case in the introduction of evidence to establish what should have been the value of stock which never was issued. The case was for the breach of a contract. The

plaintiff had fulfilled his part of the contract, namely, to secure a concession. The contract had provided that the defendant would organize a company to exploit the concession and that the plaintiff would receive preferred stock in that company. The company was organized and carried on the business as contemplated, but no preferred stock was authorized or issued and nothing was given to the plaintiff. The controversy related to the fixing of a value for the preferred stock which should have been issued to the plaintiff. In order to do that, the trial court admitted in evidence the entire story of the transactions and the complete details as to the organization of the company and as to the business which the company had transacted, although holding that the measure of the damages recoverable was what the preferred stock would have been worth if it had been issued on the day the plaintiff was entitled to receive it in accordance with the contract. The Circuit Court of Appeals for the Second Circuit approved all the rulings as to the admissibility of the evidence and all the instructions given to the jury by the trial court and stated:

> "It is claimed that the verdict was speculative, in that it determined what would have been the value of the one thousand shares of 6 per cent preferred stock agreed to be paid, when no preferred stock was ever issued, when no value was shown for the common stock which was issued, and when the contract failed to provide what amount of preferred stock should be issued, or whether it should be subject to an issue of bonds. Damages are speculative when the probability that a circumstance will exist as an element for compensation becomes conjectural. Anderson's Dictionary of Law. The term 'speculative damages' is usually applied in cases of breach of contract where money is sought for loss of uncertain or remote profits not within the understanding of the parties, or where there is uncertainty as to whether the party has been in fact dam-

aged, or whether the damages result from the act of the other party, or where they are wholly uncertain in measure or extent. *Anvil Mining Co.* v. *Humble*, 153 U. S. 540, 14 Sup. Ct. 876, 38 L. Ed. 814; 8 American & English Encyclopedia of Law (2d Ed.) 609. The rule against the recovery of uncertain damages has been generally directed against uncertainty as to cause rather than uncertainty as to measure or extent; that is, if it is uncertain whether the defendant's act caused any damage, or whether the damage proved flowed from the defendant's act, there may be no recovery of such uncertain damages; whereas uncertainty which affects merely the measure or extent of the injury suffered does not bar a recovery. 8 American & English Encyclopedia of Law (2d Ed.) 614; *Taylor* v. *Bradley*, 39 N. Y. 129, 100 Am. Dec. 415; *Wakeman* v. *Wheeler & Wilson Mfg. Co.*, 101 N. Y. 205, 4 N. E. 264, 54 Am. Rep. 676; *Bluegrass Cordage Co.* v. *Luthy & Co.*, 98 Ky. 583, 33 S. W. 835. We have frequently had occasion to consider this question in this circuit, and have approved the rule that mere uncertainty as to amount would not preclude recovery in actions to recover compensation for breach of contract to sell or manufacture, or for failure to deliver property which has no recognized market value, and that the party who has wrongfully broken a contract should not be permitted to reap advantage from his own wrong by insisting on proof which, by reason of his breach, is unobtainable. *In re Stern*, 116 Fed. 604, 54 C. C. A. 60; *Allen* v. *Field*, 130 Fed. 641, 65 C. C. A. 19.

This rule is peculiarly applicable to the case at bar. Here, the finding of the jury establishes that the plaintiff fulfilled his contract, the evidence shows that a corporation was formed, that the defendant turned over to it the mine and concessions obtained by plaintiff for which it issued bonds and common stock, that the corporation was working the mine, had received large amounts of asphalt therefrom, and had a large amount still on hand. The evidence justified a finding that the defendant had reaped a substantial benefit from the services rendered by plaintiff under said contract, and had so far com-

plied with his guaranty as to cause a corporation to be organized to handle said property. The sole defense now interposed to the payment of anything except nominal damages is the technical and inequitable one, that as the company was so organized as not to provide for the issuance of any preferred stock, the defendant is relieved from all liability under the contract, because having by his own act deprived the plaintiff of the means of accurately showing what would be the value of such stock, the law will not permit the plaintiff to resort to the best evidence obtainable as to such value, provided such evidence is speculative in the sense of being incomplete or uncertain."

Henry v. *North American Railway Construction Company*, 158 Fed. 79, is an opinion by the Circuit Court of Appeals for the Eighth Circuit, which thoroughly supports our contention that the respondent herein is entitled to introduce at the trial of the action at law, every kind of evidence which will assist the jury in ascertaining and in fixing either a fair value for the Isom patent and invention which were withheld from the respondent by the petitioner's breach of the contract in suit, or a fair estimate of the gains which the respondent was prevented from making on account of that same breach of the contract.

The Henry case was an action for a breach of contract consisting of a refusal by the defendant to issue certain bonds to the plaintiff in payment for work done. The court stated that the plaintiff had made out a prima facie case entitling it to judgment for the face value of the bonds when it had shown the failure to deliver the bonds. Thereafter, however, the defendant had attempted to show that the actual value of the bonds was less than their face value, but on objection of the plaintiff that the market value was the only criterion of value, although the bonds then had acquired no market value, that evi-

dence was rejected and judgment was given for the face value. In holding that that was error, the Appellate Court stated (pp. 80-81):

> "* * * Where a given article or commodity, or stock and bonds of an association or corporation, have been sold in market, or there is an established demand therefor, this may be shown as a means of fixing the value in measuring the damages for breach of contract for nondelivery. This for the reason that, if they can be bought in the market, the vendee or person entitled to them can thereby 'replace himself'; but even this market value may not be conclusive in the sense of a conclusive legal presumption. 'It stands as a criterion of value because it is a common test of the ability to purchase the thing. In such cases, what is called the "market price," or the quotations of the articles for a given day, is not the only evidence of value. The true value may be drawn from other sources.' 3 Sutherland on Damages (3d Ed.) p. 1894; Sedgwick on Damages (8th Ed.) § 250; 2 Cook on Corporations (4th Ed.) § 581; Colebrook on Collateral Securities (2nd Ed.) 546; 2 Clark & Marshall; on Private Corporations, p. 1170.
>
> The bonds, having acquired no market value, did not, however, leave the defendant helpless. Resort in such contingency may be had to other sources of information for ascertaining the actual value. The plaintiff would have the right to show that the real intrinsic value of the bond exceeded their face or market value; and the defendant, in the absence of any established market value, would have the right to show that the real value was less than that called for on their face. 'In such cases the real value is to be ascertained from such elements of value as are obtainable.' *Murray* v. *Stanton*, 99 Mass. 345; *Freon* v. *Carriage Company*, 42 Ohio St. 30, 38, 51 Am. Rep. 794; 2 Cook on Corporations (4th Ed.) § 581; 2 Clark & Marshall on Private Corporations, 1170; *Jonas* v. *Noel*, 98 Tenn. 440, 444, 39 S. W. 724, 36 L. R. A. 862; *Trust & Savings Company* v. *Home Lumber Company*, 118 Mo. 447, 24 S. W. 129; *Greer* v. *LaFayette County Bank*, 128 Mo. 559, 577, 30

S. W. 319; *Moffit* v. *Hereford, supra; Redding* v. *Godwin,* 44 Minn. 358, 46 N. W. 563; *Industrial & General Trust Company* v. *Tod,* 180 N. Y. 215, 231, 73 N. E. 7; *Griggs* v. *Day,* 136 N. Y. 162, 32 N. E. 612, 18 L. R. A. 120, 32 Am. St. Rep. 704; *Critchfield* v. *Julia,* 147 Fed. 65, 77 C. C. A. 297; *Nelson* v. *First National Bank,* 69 Fed. 798, 16 C. C. A. 425."

We have not been able to find any case in the reports which is similar to that here under consideration, in that the value of a patent had to be ascertained as of a certain date in order to measure the damages to which a party was entitled. However, the question of fixing valuations for patents has been under consideration recently by the courts in connection with the Internal Revenue Laws. In that connection, of course, it has been necessary to ascertain the value of each patent as of March 1, 1913, or as of the date of its acquisition. The cases in question have taken into consideration in fixing that value, many items of evidence relating to a subsequent time which are similar to the evidence sought by the Bill of Discovery herein. We therefore contend that these income tax cases, *Westclox Co.* v. *United States,* 37 F. (2d) 191; *Leggett & Platt Spring Bed Co.* v. *Crooks,* 34 F. (2d) 492, and *Hyatt Roller Bearing Co.* v. *United States et al.,* 43 F. (2d) 1008, also are authority for the allowance of the Bill of Discovery herein and for the admissibility at the trial of the pending action at law of all evidence subsequent to the date of the petitioner's breach of the contract of October 2, 1916, which in any way may tend to assist the jury in fixing a fair valuation for the Isom patent and invention as the measure of the damages to which the respondent is entitled.

The Highest Intermediate Value of the Isom Patent or Invention Between the Date When That Patent or Invention Should Have Been Assigned to the Respondent and the Date of the Trial Also Is a Proper Measure of the Damages for the Petitioner's Breach of the Contract of October 2, 1916.

A final consideration with reference to the measure of the damages which should be recoverable in the pending action at law with reference to which this suit is ancillary, is that the peculiar facts and circumstances involved make applicable the rule of the highest intermediate value of the property from the date delivery should have been made to the date of the trial, or at least that rule as modified and applied by this court in *Gallagher* v. *Jones*, 129 U. S. 193. In that case this court stated:

> "It has been assumed, in the consideration of the case, that the measure of damages in stock transactions of this kind is the highest intermediate value reached by the stock between the time of the wrongful act complained of and a reasonable time thereafter, to be allowed to the party injured to place himself in the position he would have been in had not his rights been violated. This rule is most frequently exemplified in the wrongful conversion by one person of stock belonging to another. To allow merely their value at the time of conversion would, in most cases, afford a very inadequate remedy; and, in the case of a broker, holding the stocks of his principal, it would afford no remedy at all. The effect would be to give to the broker the control of the stock, subject only to nominal damages. The real injury sustained by the principal consists not merely in the assumption of control over the stock, but in the sale of it at an unfavorable time, and for an unfavorable price. Other goods wrongfully converted are generally supposed to have a fixed market value at which they can be replaced at any time; and hence, with regard to them, the ordinary measure

of damages is their value at the time of conversion, or, in case of sale and purchase, at the time fixed for their delivery. But the application of this rule to stocks would, as before said, be very inadequate and unjust.

The rule of highest intermediate value as applied to stock transactions has been adopted in England and in several of the States in this country; whilst in some others it has not obtained. The form and extent of the rule have been the subject of much discussion and conflict of opinion. The cases will be found collected in Sedgwick on the Measure of Damages (479), Vol. 2, 7th ed. p. 379, note (b); Mayne, Damages, 83 (92 Law Lib.); 1 Sm. Lead Case 7th Am. ed. 367. The English cases usually referred to are *Cud* v. *Rutter*, 1 P. Wms. 572, 4th ed. note (3); *Owen* v. *Routh*, 14 C. B. 327; *Loder* v. *Kekule*, 3 C. B. N. S. 128; *France* v. *Gaudet*, L. R. 6 Q. B. 199. It is laid down in these cases that where there has been a loan of stock and a breach of the agreement to replace it, the measure of damages will be the value of the stock at its highest price on or before the day of trial.

The same rule was approved by the Supreme Court of Pennsylvania in *Bank of Montgomery* v. *Reese*, 2 Casey (26 Pa.) 143, and *Musgrave* v. *Beckendorff*, 3 P. F. Smith (53 Pa.) 310. But it has been restricted in that State to cases in which a trust relation exists between the parties—a relation which would probably be deemed to exist between a stock broker and his client. See *Wilson* v. *Whitaker*, 13 Wright (49 Pa.) 114; *Huntingdon & B. T. R. & Coal Co.* v. *English*, 86 Pa. 247.

Perhaps more transactions of this kind arise in the State of New York than in all other parts of the country. The rule of highest intermediate value up to the time of trial formerly prevailed in that State, and may be found laid down in *Romaine* v. *Van Allen*, 26 N. Y. 309, and *Markham* v. *Jaudon*, 41 N. Y. 235, and other cases,—although the right application of the rule was deprecated by the New York Superior Court in an able opinion by *Judge Duer*, in *Suydom* v. *Jenkins*, 3 Sandf. 614. The hardship which arose from estimating the damages by the

highest price up to the time of trial, which might be years after the transaction occurred, was often so great that the Court of Appeals of New York was constrained to introduce a material modification in the form of the rule, and to hold the true and just measure of damages in these cases to be the highest intermediate value of the stock between the time of its conversion and a reasonable time after the owner has received notice of it to enable him to replace the stock. This modification of the rule was very ably enforced in an opinion of the court of appeals delivered by *Judge* Rapallo, in the case of *Baker* v. *Drake*, 53 N. Y. 211, which was subsequently followed in the same case in 66 N. Y. 518, and in *Gruman* v. *Smith*, 81 N. Y. 25; *Colt* v. *Owens*, 90 N. Y. 368, and *Wright* v. *Bank of Metropolis*, 110 N. Y. 237 (13 Cent. Rep. 415).

It would be a herculean task to review all the various and conflicting opinions that have been delivered on this subject. On the whole it seems to us that the New York rule, as finally settled by the Court of Appeals, has the most reasons in its favor, and we adopt it as a correct view of the law.

The judgment is reversed, and the cause remanded to the Supreme Court of Utah, with instructions to enter judgment in conformity with this opinion."

The principles stated and applied in *Galigher* v. *Jones*, also have been followed by the Circuit Court of Appeals for the Eighth Circuit in *McKinley* v. *Williams*, 74 Fed. 94, and in *White* v. *Fuller*, 104 Fed. 192, and by the District Court for the District of Massachusetts in *In re Swift et al.*, 114 F. 947. In *McKinley* v. *Williams* the Circuit Court of Appeals for the Eighth Circuit stated (pp. 103-104):

"*Counsel for the appellant argues that this rule should not be applied to this case, because the stocks which the appellant obtained never became the property of the appellee, and hence could not have been converted. The answer is that this measure of damages is as applicable to actions upon contracts as to*

those upon torts. Barnes v. *Brown*, 130 N. Y. 372, 382, 29 N. E. 760; *Maynard* v. *Pease*, 99 Mass. 555. Moreover, the reasons for its application to actions for the appropriation, by a trustee, of property impressed with a trust, are peculiarly cogent, and seem to us conclusive. In such cases this measure of damages rests upon the ordinary rule in equity that the trustee shall not put into his own pocket any of the profits arising from the trust. He is bound either to deliver the specific property on the day when the *cestui que trust* is entitled to its delivery, or to pay him, in lieu of it, the highest market value which it attains between that time and the expiration of a reasonable time after *cestui que trust* is notified of the acts of the trustee. *Wilson* v. *Whitaker*, 49 Pa. St. 114, 117. In this case the appellant was managing the business and selling the rights of the appellee in this property, as his agent, under a written agreement that no assignment or lease should be made without the written consent of the appellee. Whenever he sold any interest in, or sublet any of, the property of his principal, the latter was entitled to the immediate delivery of the proceeds of the sale or lease. When he took these stocks, his principal was entitled to them, or, at least, to four-fifths of them, as soon as he took them. He not only failed to deliver them to his principal, but he failed to notify him that he had received them at all, until they had passed their highest market value, and until some of them had become worthless. No facts or circumstances occur to us under which the reasons for the application of the measure of highest intermediate value would apply with greater force, or under which they would produce an effect more salutary than under those in the case in hand. The appellant stood in a relation of trust and confidence to the appellee. He failed for months—nay, he refused and still refuses—to deliver to him the stocks which he took in payment for his principal's property. He failed to report the fact that he had them until the time had passed when they could have been sold to the best advantage; so that the appellee was deprived of his best opportunity to sell them, while the appellant secured

this chance for himself. In violation of his trust, he took the risk of the fluctuating market. He ought now to pay the damage which the loss of its opportunities may have entailed upon his principal, and which he secured to himself alone by the violation of his trust.

The decree below must be affirmed, with costs; and it is so ordered." (Italics ours.)

The principle of the highest intermediate value could be applied as the measure of the damages to which the respondent is entitled in the pending action at law in aid of which this suit in equity for discovery was instituted, because the value of a patent is even more uncertain and fluctuating than the value of stocks.

All the facts and conditions which are required for the application of the principle of the highest intermediate value are disclosed in the declaration in the pending action at law, as that declaration clearly alleges the full performance by the respondent of all the terms and conditions of the contract of October 2, 1916, on the part of the respondent to be carried out and performed, long prior to the date of the breach of that contract by the petitioner. (R. 22.)

The principle of the highest intermediate value has been applied in a number of actions for damages for the breach of a contract to deliver articles having a market value, the basis for its application in those cases being that as the buyer has paid for the goods in advance, he is not in a position to purchase them in the open market; *Gregg* v. *Fitzhugh*, 36 Tex. 127 (1871); *Stapleton* v. *King*, 40 Iowa 278 (1875); *Kent* v. *Ginter*, 23 Ind. 1 (1864); *Dabovich* v. *Emeric*, 12 Cal. 171 (1859), and of course the principle is even more applicable to the pending action at law in aid of which discovery is sought hereby, because of the character and of the unique value of the property which is the subject matter of that action.

Shepherd v. *Hampton*, 16 U. S. 200, 4 L. Ed. 369, was an action for breach of a contract to deliver cotton. The plaintiff had recovered damages based on the highest market price of cotton in the New Orleans market on the date that delivery should have been made, and the Supreme Court affirmed that as the proper rule of damages for the case. Chief Justice Marshall stated that he, personally, did not think that rule would apply to a case where advances of money had been made by the purchaser under the contract. A note to this case in 4 L. Ed. pages 369, 370, states:

> "But when the purchaser has paid the price in advance, or has otherwise, as in the loan of stocks, been deprived of the use of his property, a doubt exists whether the purchaser is limited to the value of the article at the time of delivery or shall have the advantage of any rise in the market value of the article which may have taken place up to the time of trial, and different and conflicting decisions have, on this point, been made. In England and in New York the latter rule is laid down, on the ground that the purchaser, having been deprived of the use of his property, is entitled to the best price he could have obtained up to the time of the settlement of the question for the article, the delivery of which has not been made according to the vendor's agreement. Sedgwick on Meas. of Dam. 260."

It appears to us that the statement of the Chief Justice and the note quoted above, suggest that in the pending action at law, the respondent should be entitled to have the advantage of any increase in the provable value of the Isom patent or invention which may have taken place prior to the time of the trial, or at least during a reasonable time after the breach of the contract, as the contract in suit was completely performed by the respondent prior to the date of its breach by the petitioner.

IV.

It Would Be Unreasonable to Hold That the Contract of October 2, 1916, Only Could Have Been Breached When the Isom Patent Application Was Filed.

The petitioner's contention that the only measure of the damages which the respondent should be allowed to recover, is the market value of the application on which United States Letters Patent No. 1,285,200 later were issued, as of September 10, 1917, when that application was filed by Edward W. Isom and when it was assigned by him to the petitioner, is thoroughly unreasonable. Certainly, it cannot be the law that the respondent's cause of action accrued and the statute of limitations began to run against it, long prior to the date when the respondent knew or when the respondent by any means could have ascertained that the petitioner had breached the contract.

The Court of Appeals held that the correct date as to the point of time at which the petitioner's breach of the contract of October 2, 1916, occurred, will depend on the facts proved at the trial of the pending action at law, and that on the facts alleged that contract appears to have been broken on the date when the Isom application became merged into the Isom patent. (62 Fed. (2d) 663, 665) (R. p. 86) The respondent has contended that July 25, 1921, the date when the answer of the petitioner was filed in the original suit in equity probably is the date which should be fixed as the date of the petitioner's breach of the contract of October 2, 1916, because that probably was the earliest date of an unequivocal refusal by the petitioner to comply with the provisions of the contract by causing the improvements in the Jenkins ap-

paratus and process which are protected by that patent to accrue to the Jenkins Petroleum Process Company.

If the petitioner's position is correct, any person who has contracted to assign an invention, can avoid any liability for a breach of that contract, merely by keeping his secret patent application pending so long in the Patent Office that the patent does not issue until after the statute of limitations has run against the cause of action which accrued when the application was filed and was not assigned.

The petitioner's brief (pp. 27-28) attempts to controvert the above proposition by asserting that the statute of limitations may not have begun to run until after the discovery of the breach of the contract of which the respondent complains, and that accordingly even if the respondent's ignorance of the filing of the Isom application should prevent the beginning of the running of the statute of limitations, that would not change the date of the alleged breach or affect the measure of damages for that breach.

The petitioner's assertion is not supported by the authorities. Williston on Contracts states:

> "A mere failure by the defendant to disclose the facts on which a cause of action is based is not ordinarily sufficient to preclude him from setting up the statute. There must be some artifice or positive action to prevent the plaintiff's acquiring knowledge. * * *" (§ 2018, p. 3420)
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> * * * * *
>
> "Ignorance of the plaintiff of his rights or of the facts on which his rights are based, when such ignorance is not due to fraudulent concealment by the defendant, is not generally held to prevent the running of the statute. * * *" (§ 2020, p. 3422)

The petitioner's brief (pp. 27-28) cites three state cases in support of its assertion, but one of those cases

(Mass.) related to a breach of trust and the other two cases (Pa. and W. Va.) are referred to by Mr. Williston as exceptions to the general rule.

The petitioner should not be allowed to control the amount of the respondent's damages by controlling the date of any breach of the contract in suit in the pending action at law. That however will be the result if the petitioner's contentions with reference to this point shall be sustained. The petitioner had the sole power and control over the filing of the application on the Isom invention, over the prosecution and the issuance of a patent on that invention and over the disclosure of the invention to the public. At any time prior to the date of issue of the Isom patent a substitute application could have been filed and the first application allowed to lapse. Even after the issue of the Isom patent, a re-issue application might have been filed and the prosecution renewed thereon within two years after the date of issue of the Isom patent. The petitioner virtually is contending that the Isom invention and the Isom patent should be valued as of the date the application was filed and was assigned to the petitioner; that as practically no evidence of value is available as of such date, only nominal damages may be recovered; and that under the contract of October 2, 1916, and under similar contracts, the petitioner and parties similarly situated can breach such contracts with impunity.

Conclusion.

The opinion of the Circuit Court of Appeals for the First Circuit herein should be affirmed if any of the evidence sought to be secured by the Bill of Discovery herein will be relevant and material to the question of the amount of the damages recoverable by the respondent in the

pending action at law for damages for the breach of the contract of October 2, 1916, in aid of which this suit in equity was instituted, in accordance with whatever theory as to the measure of those damages this Court may hold is applicable to the facts and to the circumstances presented by the issues in that pending action at law.

The petitioner's brief primarily attempts to support the proposition that the rule as to the admissible evidence to prove the amount of the damages in the usual action for the breach of a contract to transfer or assign property which has an easily ascertained and fixed market value or price, must be applied at the trial of the pending action at law in aid of which discovery is sought to limit and to restrict the respondent's right to introduce evidence which clearly would give the jury a basis for determining a reasonable and fairly compensatory value for the Isom patent and for the inventions protected thereby as the measure of the damages which the respondent has suffered on account of the petitioner's breach of the contract of October 2, 1916.

The court heretofore has held that the rule of damages should not depend upon the form of the action. (*Hetzel* v. *Baltimore & Ohio Railroad Company, supra.*) The petitioner therefore submits that the general principles relative to the allowance of damages which were stated by this Court in *Story Parchment Co.* v. *Paterson Parchment Paper Co.* 282 U. S. 555, should govern the determination of this case. In that case this court stated:

> "Where the tort itself (the contract in this case) is of such a nature as to preclude the ascertainment of the amount of damages with certainty, it would be a perversion of fundamental principles of justice to deny all relief to the injured person, and thereby relieve the wrongdoer from making any amend for his acts. In such case, while the damages may not

> be determined by mere speculation or guess, it will be enough if the evidence show the extent of the damages as a matter of just and reasonable inference, although the result be only approximate. The wrongdoer is not entitled to complain that they cannot be measured with the exactness and precision that would be possible if the case, which he alone is responsible for making, were otherwise. * * *" (p. 548)

All the evidence sought to be adduced by the Bill of Discovery herein relates to the question of the actual and practical utility and value of the inventions of the Isom patent and invention as established by the construction and by the operation and by the extent of the operation and by the economy and efficiency of the operation of the cracking stills embodying those inventions which have been constructed and operated by the petitioner. All that evidence is relevant and material to the question of the amount of the damages, if the respondent is entitled to recover its actual substantial damages in accordance with the general damages rule, or with the rule of gains prevented, or with the rule of the highest intermediate value, as those rules have been stated and applied by the courts in the cases cited hereinbefore.

All that evidence also is relevant and material to the question of the amount of the damages recoverable if the court shall hold that the damages recoverable must be measured by the value of the Isom patent and invention as of some certain date, but shall approve the principles followed in *Crichfield* v. *Julia* and in the tax cases, and shall permit the introduction of evidence of matters and things of a subsequent date in order that the jury may be fully advised as to the nature, the utility, the advantages and the extent of the use of the inventions of the Isom patent and so that it may determine a fair

valuation for that patent as of the date specified on the basis of that and of other general evidence.

Even if the petitioner's contentions should be accepted, the evidence sought to be adduced by the interrogatories in the Bill of Discovery will be relevant and pertinent to establish the inherent mechanical utility, as distinguished from the commercial use and utility, of the inventions of the Isom patent. In any event evidence of the operativeness and of the capacity for performing certain kinds of work of the inventions of the Isom patent should be admissible for the consideration of expert witnesses and of the jury in determining a fair value for that patent.

For the reasons stated above we respectfully submit that the opinion of the Circuit Court of Appeals for the First Circuit overruling the order of the District Court which dismissed the bill in equity for discovery herein should be affirmed.

C. Stanley Thompson,
Philip G. Clifford,
Frederick Schafer,
Counsel for the Respondent.

SUPREME COURT OF THE UNITED STATES.

No. 752.—October Term, 1932.

Sinclair Refining Company, Petitioner, *vs.* Jenkins Petroleum Process Company, Respondent.	On Writ of Certiorari to the Circuit Court of Appeals for the First Circuit.

[May 29, 1933.]

Mr. Justice Cardozo delivered the opinion of the Court.

A bill of discovery in aid of an action at law was dismissed by the District Court (56 F. (2d) 272), but upheld upon appeal by the Circuit Court of Appeals. 62 F. (2d) 663. The question is whether the bill is good upon its face.

The respondent, Jenkins Petroleum Process Company, loaned to the petitioner, Sinclair Refining Company, then known as the Cudahy Refining Company, an experimental still for cracking petroleum oils to produce gasoline. By written agreement, any improvements developed as the result of the work of the petitioner's engineers and experts in making themselves familiar with the Jenkins apparatus or process were to belong to the respondent. The petitioner, or its predecessor, undertook, so far as it was able, to cause its employees to execute applications for patents in the United States and elsewhere in order to protect such improvements, and to assign the applications to the petitioner together with the improvements affected thereby.

In January, 1921, the respondent filed a bill in equity for specific performance. Isom, an employee of the petitioner, applied for a patent on September 10, 1917, and when the patent was issued on November 19, 1918, assigned it to his employer. The respondent made claim to the patent on the ground that it was an improvement of the Jenkins invention. After a trial upon the merits, the bill for specific performance was dismissed, the court holding that there was doubt whether Isom's invention was the outcome of his use of the Jenkins apparatus, or of independent thought and knowledge. 32 F. (2d) 247. There was an appeal

from the decree to the Circuit Court of Appeals for the First Circuit. That court invoked the principle that to uphold a decree for specific performance there must be clear and convincing evidence, and not merely such evidence as would sustain a recovery at law. In that view the decree was affirmed in so far as it dismissed the prayer for equitable relief, but the dismissal was coupled with a direction that the cause be transferred to the law side of the court, the plaintiff to have leave to amend by turning his cause of action into one for the recovery of damages. 32 F. (2d) 252.

The action at law is now at issue, and the plaintiff prays for a discovery. It alleges in its bill that the evidence of the facts to be discovered is contained in voluminous books and documents which could not be inspected or proved upon a trial at law for damages without confusion and delay. Discovery is demanded as to the number of cracking stills constructed by the defendant under the Isom patent: as to the extent and time of operation: and as to the amount of gasoline and other petroleum products yielded thereby, with an inspection of the relevant designs and drawings. The District Court granted a motion to dismiss the bill placing its decision upon two grounds, (1) that a bill of discovery will not lie when the facts to be discovered relate to damages only, and (2) that the value of the patents has no relation to the sales of the patented device, and that evidence of such sales would be inadmissible if offered. The Court of Appeals reversed, one judge dissenting. In the view of the majority of the court, the damages to be recovered in an action at law may be proved by resort to a discovery in equity, if the ancillary remedy is reasonably necessary to advance the ends of justice. *Munger* v. *Firestone Tire & Rubber Co.*, 261 Fed. 921, and *Loose* v. *Bellows Falls Pulp Plaster Co.*, 266 Fed. 81, were disapproved to the extent that they involve a ruling to the contrary. As to the measure of damages, and the evidence pertinent thereto, the court held that the plaintiff was not concerned with the defendant's profits, since it was suing for breach of contract, and not as equitable owner. Even so, in ascertaining the value of the patent at the time of the breach, the triers of the facts would be at liberty to consider the commercial use that had been made of the patented device. The court went on to indicate restrictions as to the order of proof which were thought to be appropriate. At first and as part of the case in chief, the plaintiff was to be confined within rather narrow limits. It might show

"the general facts about the Isom invention, not specific instances of profitable use by this person or that." The need for greater detail, however, might develop with the trial. "If . . . the defendant should deny the utility and commercial success of the invention, evidence of the defendant's use of it might be highly significant; and under those circumstances the plaintiff would be entitled to discovery of them." The information to be exacted of the defendant was thus, in the view of the court, to be adjusted to the need. To permit that adjustment the bill was to be retained until the trial, and prompt discovery would then be ordered if the situation thus developed should call for that relief. A writ of certiorari prayed for by the defendant, has brought the case here.

1. The remedy of discovery is as appropriate for proof of a plaintiff's damages as it is for proof of other facts essential to his case.

Help for the solution of problems of this order is not to be looked for in restrictive formulas. Procedure must have the capacity of flexible adjustment to changing groups of facts. The law of discovery has been invested at times with unnecessary mystery. There are few fields where considerations of practical convenience should play a larger rôle. The rationale of the remedy, when used as an auxiliary process in aid of trials at law, is simplicity itself. At times, cases will not be proved, or will be proved clumsily or wastefully, if the litigant is not permitted to gather his evidence in advance. When this necessity is made out with reasonable certainty, a bill in equity is maintainable to give him what he needs. Equity Rule 58. There were other reasons in times past, when parties were not permitted to be witnesses, and when there was no compulsory process for the production of books or documents. *Carpenter* v. *Winn*, 221 U. S. 533; *Pressed Steel Car Co.* v. *Union Pacific Co.*, 240 Fed. 135, 136. Today the remedy survives, chiefly, if not wholly, to give facility to proof. In the practice of many states there is a summary substitute by an order for examination before trial or for the inspection of books and papers. The substitute has never found its way into the procedure of the federal courts. *Ex parte Fisk*, 113 U. S. 713. The remedy in those courts is still by bill in equity as in days before the codes. *Colgate* v. *Compagnie Francaise, etc.*, 23 Fed. 82; *Pressed Steel Car Co.* v. *Union Pacific Co., supra.*

To state the function of the remedy is to give the password to its use. There are times when a suit is triable in separate parts, one affecting the right or liability, and the other affecting the measure of recovery. In suits of that order a discovery as to damages will commonly be postponed till the right or liability has been established or declared. *Schrieber* v. *Heyman*, 63 L. J. Rep. 749 (1894); *Elkin* v. *Clarke*, 21 W. R. 447 (1873); *Parker* v. *Wells*, L. R. 18 Ch. Div. 477; *Fennessy* v. *Clark*, L. R. 37 Ch. Div. 184; *De la Rue* v. *Dickinson*, 3 K. & J. 388; Peile, The Law and Practice of Discovery, pp. 26-29; Bray, Principles and Practice of Discovery, pp. 14, 15; Wigram, Points in the Law of Discovery, § 45. As a general thing it will be useless to decree it any earlier, and may even be oppressive. "The principle of judicial parsimony" (L. Hand, J., in *Pressed Steel Car Co.* v. *Union Pacific Railroad Co.*, *supra*), if nothing more, condemns a useless remedy. This division of the trial into stages or instalments will happen oftenest in suits in equity, though it is not unknown in actions at law where a jury has been waived. In equity it is common practice. Thus, a suit to establish a partnership or to restrain the infringement of a patent culminates, if successful, in an interlocutory decree, which will be followed by an accounting and a discovery of documents. In these and like cases, the accounts will not be probed until the right has been adjudged.

A different situation is presented where the action is at law and is triable by judge and jury. There interlocutory judgments are unknown, at all events where the defendant has answered generally and not by special plea, and the verdict establishing the right establishes at the same time the amount to be recovered. The answer being general, the case according to common law practice must be tried as a unit and not broken into parts. In such circumstances damages may be proved with the aid of a discovery, if the complication of accounts or other practical impediments make it necessary that the evidence be sifted in advance. *Pape* v. *Lister*, L. R. 6 Q. B. 242; *Saunders* v. *Jones*, L. R. 7 Ch. Div. 435, 452; *Elkin* v. *Clarke*, *supra*; *Sherwood Bros. Inc.* v. *Yellow Cab Co.*, 283 Pa. St. 488, 491, 492; *Wells* v. *Holman*, 115 S. C. 443; *McKinnon Young Co.* v. *Stockton*, 55 Fla. 708; *Burns* v. *Lipson*, 204 App. Div. (N. Y.) 643; *Webb* v. *Homer W. Hedge Co.*, 133 App. Div. (N. Y.) 420; *Iroquois Hotel & Apartment Co.* v. *Iroquois Realty Co.*, 126 App. Div. 814; *Harbaugh* v. *Middlesex Securities Co.*, 110 App.

Div. 633; *Peile, supra*, p. 112; *Bray, supra*, p. 21. "I have consulted my learned Brothers," said Lush, J., in *Pape* v. *Lister, supra*, "and the conclusion at which we have arrived is that this rule must be made absolute. I do not agree with Mr. Wills' contention that 'relating to such action' means relating to the issues raised. I think if documents relate to the amount of damages, that is quite sufficient."

Munger v. *Firestone Tire & Rubber Co.*, 261 Fed. 921, is cited by the petitioner as supporting a general rule that the necessity of proving damages is never a sufficient ground for a discovery in equity. If confined to its special facts, the decision may not be wrong. Very likely the bill was insufficient to make out a *prima facie* showing of right or liability. If the case stands for more than that, as the opinion indicates it does, it does not have our approval. The point is made in it that damages are not part of the "issues" in a lawsuit, and that the interrogatories to be answered by a defendant under a bill of discovery are to be directed to the issues and not to anything else. There is indeed a rule of common law pleading that the statement of general damages in the *ad damnum* clause of a complaint is not an issuable allegation. *McClelland* v. *Climax Hosiery Mills*, 252 N. Y. 347, 356; *Howell* v. *Bennett*, 74 Hun 555, 558. This does not mean, however, that the plaintiff will not have to prove his damages if he wishes to get more than a nominal verdict. Quite to the contrary, it means that he will have to prove them though the defendant has omitted to deny them in the answer. It is a *non sequitur* to argue from this that the quantum of the damages is not a part of the case to be proved through the aid of a discovery if proof upon the trial will be burdensome or difficult. To this it must be added that interrogatories today are no longer any part of the pleadings, whatever they may once have been. Equity Rule 58 has taken that quality away from them. *Luten* v. *Camp*, 221 Fed. 424. They are not instruments in any technical sense for the joinder of issue. They are forms of examination preliminary to trial.

The petitioner is not helped by our decision in *United States* v. *Bitter Root Development Co.*, 200 U. S. 451, 472. The complainant in that suit did not seek a discovery in aid of an action at law for the recovery of damages. The suit was for general relief as well as for discovery, the prayer for discovery being merely incidental. The complainant was attempting to transfer to a court of equity

the control of a suit that was triable at law. Cf. *Colgate* v. *Compagnie Francaise*, *supra*, p. 85; *Whittemore* v. *Patten*, 81 Fed. 527; *Wigram*, *supra*, § 10. The incident fell with the fall of the principal.

Loose v. *Bellows Falls Pulp Plaster Co.*, *supra*, also cited by the petitioner, has a dictum approving the decision in *Manger* v. *Firestone Tire & Rubber Co.*, *supra*, but the point was not involved, for the plaintiff was not asking for discovery as an auxiliary remedy in furtherance of his remedy at law, but was attempting, like the complainant in the *Bitter Root* case, to subject the entire suit to the jurisdiction of equity.

To hold that the plaintiff in an action at law may have discovery of damages is not to say that the remedy will be granted as of course, or that protection will not be given to his adversary against impertinent intrusion. *Wigram*, *supra*, § 115. The court may decline to open the defendant's records to the scrutiny of a competitor posing as a suitor, if the suit has been begun without probable cause or as an instrument of malice. It is all a matter of discretion. Good faith and probable cause were here abundantly established. The remedy of specific performance had been refused, but the very court that refused it had found sufficient merit in the suit to call for an amendment of the pleadings that would give the plaintiff an opportunity to maintain a remedy at law.

The decree under review protects the petitioner with sedulous forethought against an oppressive inquisition. Only the most general facts are to be discovered in advance of trial. The bill is to be retained, however, to be available in case of need. If the occasion for fuller scrutiny shall afterwards develop, there may thus be an inspection of the records without the delay that would be inevitable if a new bill had to be filed with a new opportunity to the defendant to answer or demur. Presumably the jury could be held together in the interval, and the trial at law adjourned. This relief may have been less than the plaintiff should have had. It was certainly not more.

2. The use that has been made of the patented device is a legitimate aid to the appraisal of the value of the patent at the time of the breach.

This is not a case where the recovery can be measured by the current prices of a market. A patent is a thing unique. There can be no contemporaneous sales to express the market value of

an invention that derives from its novelty its patentable quality. Cf. *United States* v. *Swift & Co.*, 270 U. S. 124; *Todd* v. *Gamble*, 148 N. Y. 382. But the absence of market value does not mean that the offender shall go quit of liability altogether. The law will make the best appraisal that it can, summoning to its service whatever aids it can command. *United States* v. *Swift & Co., supra; U. S. Frumentum Co.* v. *Lauhoff*, 216 F. 610; *Industrial & General Trust, Ltd.* v. *Tod*, 180 N. Y. 215, 232; Sedgwick, Damages, 9th ed., vol. 1, pp. 491, 504. At times the only evidence available may be that supplied by testimony of experts as to the state of the art, the character of the improvement, and the probable increase of efficiency or saving of expense. *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U. S. 641, 648, 649; *Suffolk Mfg. Co.* v. *Hayden*, 3 Wall. 315, 320; *U. S. Frumentum Co.* v. *Lauhoff, supra.* This will generally be the case if the trial follows quickly after the issue of the patent. But a different situation is presented if years have gone by before the evidence is offered. Experience is then available to correct uncertain prophecy. Here is a book of wisdom that courts may not neglect. We find no rule of law that sets a clasp upon its pages, and forbids us to look within.

Ithaca Trust Co. v. *United States*, 279 U. S. 151, does not commit us to a different holding. The problem there before the court was one as to the appraisal of a life estate for the purpose of the assessment of a tax. The intention of the lawmakers was held to be that the computation of the tax should be made as of the death of the testator on the basis of a law of averages. Cf. *Matter of Wagner* v. *Wilson & Co.*, 251 N. Y. 67, 71. A different question would have been here with a different result if we had been measuring the damages for a breach of contract or a tort. To correct uncertain prophecies in such circumstances is not to charge the offender with elements of value non-existent at the time of his offense. It is to bring out and expose to light the elements of value that were there from the beginning. *Brightson* v. *Claflin Co.*, 180 N. Y. 76, 83, 84; *Wakeman* v. *Wheeler & Wilson Mfg. Co.*, 101 N. Y. 205, 217; cf. *City of New York* v. *Sage*, 239 U. S. 57; *Cincinnati Siemens Lungren Gas Co.* v. *Western Siemens Lungren Co.*, 152 U. S. 200; *Henry* v. *North American Railway Construction Co.*, 158 Fed. 79, 80, 81; Williston, Contracts, Vol. III, p. 2394.

Value for exchange is not the only value known to the law of damages. There are times when heed must be given to value for use, if reparation is to be adequate. *Barker* v. *Lewis Storage & Transportation Co.*, 78 Conn. 198; *Green* v. *Boston & Lowell Railroad Co.*, 128 Mass. 221; *Citizens Bank* v. *Fitchburg Fire Ins. Co.*, 86 Vt. 267; *McAnarney* v. *Newark Fire Ins. Co.*, 247 N. Y. 176, 184, 185; Sedgwick, *supra*, pp. 504-507. An imaginary bid by an imaginary buyer, acting upon the information available at the moment of the breach, is not the limit of recovery where the subject of the bargain is an undeveloped patent. Information at such a time might be so scanty and imperfect that the offer would be nominal. The promisee of the patent has less than fair compensation if the criterion of value is the price that he would have received if he had disposed of it at once, irrespective of the value that would have been uncovered if he had kept it as his own. Formulas of measurement declared *alio intuitu* may be misleading if wrested from their setting and applied to new conditions. See, e. g., *Standard Oil Co.* v. *So. Pac. Co.*, 268 U. S. 146, 155. The market test failing, there must be reference to the values inherent in the thing itself, whether for use or for exchange. *Industrial General and Trust Co.* v. *Tod*, *supra*. These will not be known by first imagining a forced sale, and then accepting as a measure its probable results. The law is not so tender to sellers in default.

3. Section 724 of the Revised Statutes permitting the use of a subpoena *duces tecum* for the production of books and papers has not superseded the remedy of discovery in cases where inspection during the trial and in the presence of the jury will produce delay or inconvenience. *Carpenter* v. *Winn*, *supra*; *Pressed Steel Car Co.* v. *Union Pacific Railroad Co.*, *supra*.

The court did not exceed the bounds of a legitimate discretion in holding that these embarrassments might reasonably be expected to follow if discovery were refused.

The decree should be

Affirmed.

A true copy.

Test:

Clerk, Supreme Court, U. S.